

The Annual Print Media Dialogue of Bank CEOs - 2016

BB SHARPENING KNIVES TO COMBAT THREATS & THEFTS

Where do bank CEOs stand in the battle?

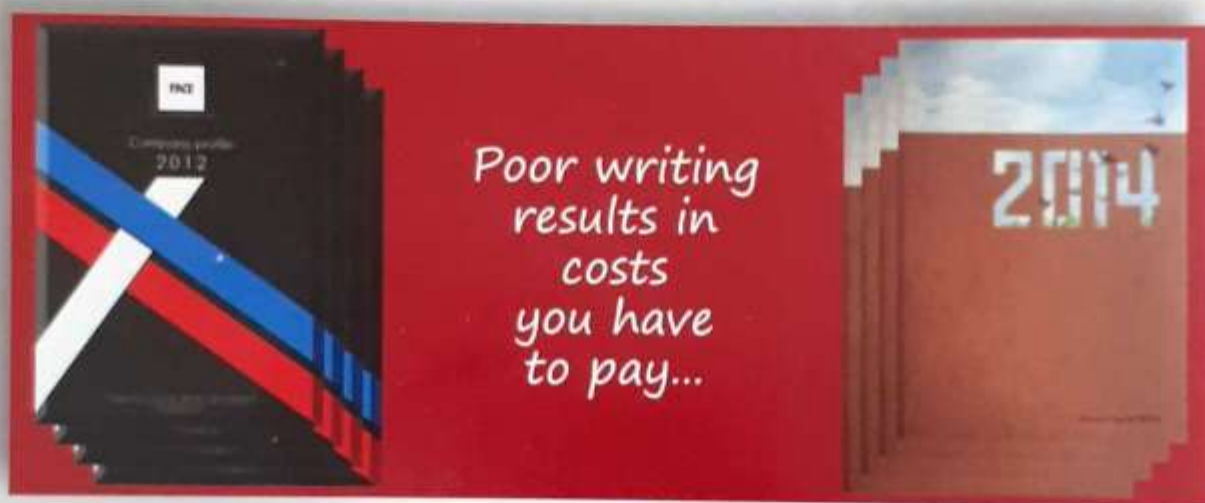


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Is Mobile Financial Service
the next major battle ground?

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From the Desk of Managing Editor

Dhaka, Tuesday, November 01, 2016

The Annual Print Media Dialogue of Bank CEOs-2016 has been brought to the light through this Special Publication. The topic was: BB Sharpening Knives To Combat Threats & Thefts. Where Do Bank CEOs Stand In The Battle? Financial crimes and cyber attacks are now the top of concerns for bank CEOs all over the world. More bad headlines are to come as bad apples are alive and greed is well in banking. So, Bangladesh Bank has declared a virtual war to safe banks in Bangladesh and sharpening regulations and supervisory knives. Here the role of bank CEOs is very crucial to win the battle and this year we have decided to focus the issue. Our aim is to reduce the gap between regulators and bankers through this dialogue and this special publication.

Mr. Faruk Ahmed, Economic Editor of The Daily Observer has moderated the dialogue through face to face interviews of each bank CEO separately and articulated the views with the approvals of concerned CEOs. A total of 17 bank CEOs have been included in the publication. More CEOs expressed their views on condition of anonymity, so we could not cover them in this publication. The views expressed by the CEOs are mostly identical but some are exclusive never were told before.

In a Sideline Story, the writer has focused the mobile financial service (MFS) industry, which is growing rapidly but likely to halt at a crossroads driven by some regulatory obligations and war games between banks and fintech firms. The question has been raised: Is mobile merchant payment the next major battleground for digital financial services providers? Mr. Faruk Ahmed has shed light on the issue with some arguments and his outlooks.

We are grateful to Dr Fazle Kabir, Governor of Bangladesh Bank, who has encouraged us to take this initiative. We are thankful to our sponsors and advertisers, who have helped us to bring this Not-For-Profit publication to light.

- Shamim Ara Ahmed

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From the Chairman of ABBL



MESSAGE FROM ABB CHAIRMAN

At a time when major economies of the world are under tremendous pressure due to the second wave of financial crisis and bankruptcy of financial institutions and sovereign debt crisis, the banking sector of Bangladesh has been navigating through it in a resilient manner. However, it remains a key target for criminals, and asset misappropriation is still the primary type of reported economic crime. People across the world are deprived of their rights due to money laundering and terror financing, which is of great concern to all.

I am happy that The Bangladesh Express is going to focus on these crucial issues in its Annual Print Media Dialogue of Bank CEOs through bringing out a special publication. It is really a good initiative as digital channels in financial services continue to evolve and cyber security has become a business risk, rather than simply a technical risk. Many organised gangs are now more active posing a big threat to global economic activities, and global regulators have proposed stricter rules on how banks can cover risks to operations from cyber attacks, fraud or hefty fines. It is really a big concern for banks and financial institutions, as stricter regulation is not the ultimate solution.

There are different types of cybercrime, from hacktivism to data theft, which affect different functions of the bank in varying ways. The growing headache for banks is fraudsters raiding bank accounts. There appears to be a certain lag in the implementation of fraud risk management actions. The situation signals the need for quality guidance that banks can use to develop and implement the right fraud risk management strategy. I am sure that the bank CEOs will address the issues in their respective dialogues.

I am confident that interactions and interpretations amongst the stakeholders will bring positive aspects to light to lead the banking industry to win the battle against cyber threats.

Thank you all.

With regards,

ANIS A KHAN
CHAIRMAN



Anis A Khan
Chairman of ABBL



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From the Chairman of BLFCA



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Message


I am happy to know that The Bangladesh Express is going to organize its Annual Print Media Dialogue of Bank CEOs-2016 through a Special Publication titled- BB Sharpens Knives to Combat Thefts and Threats: Where do bank CEOs stand in the battle? This is a unique idea as a collective consensus of banks, financial institutions and regulators can make policies and adopt measures to protect banking and financial platforms from any possible mess. NBFIs are the integral part of the financial services ecosystem so they are not beyond the risks of banking frauds and cyber threats. So, interactions among bank CEOs through this print media dialogue would be very helpful to all of us involved in banking and financial services sector of Bangladesh to combat thefts and threats, I believe.

The global financial industry is concerned now more than ever as fraud and cyber threat are now evolving with digital transformation. Many study reports say the finance sector is hit by security incidents nearly 300 times more frequently than businesses in other sectors. Regulations have started rolling out in the coming year starting at the state level. Several banks today are hiring the best cyber security agencies that help in developing robust risk management regulations and provide reliable and useful threat information. The recent incident of money laundering from Bangladesh Bank's reserves by a gang of cyber hackers and frauds in some ATMs of banks, is a loud warning to us to become extremely cautious and put in place strong firewalls and robust security systems.

I think, it's not enough to build up walls and harden the systems, we need human capital and interactions to understand the threats. Besides better risk management plans and investing in technology to abet cyber thefts, both banks and NBFIs should continue to strengthen cooperation and collaboration being equipped with information and innovation to fight against criminals. There is also a need to build a more cohesive community of regulators, banks, NBFIs, technology providers and enforcement agencies to counter these threats on a national as well as global scale.

Through this print media dialogue of bank CEOs will give their prudent views and ideas for the development of tools and models and thoughts and suggestions to increase cooperation, which can be applied to counter any crimes in banking and financial regime. And thus, this Special Publication will provide rich insight and adequate knowledge to all stakeholders including all involved in NBFIs, I believe.

With best wishes.


Mafizuddin Sarker
Chairman



Mafizuddin Sarker
Chairman, BLFCA

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A Few Words From The Writer

Writing on finance topics is not always an easy task, particularly for a journalist working in daily newspaper, like me. And it is, of course, more difficult to articulate the views of CEOs of leading commercial banks who are not ordinary executives but experts in banking and all times remain busy with too many tough jobs. So, I embarked on the process of writing this publication somewhat reluctantly.

When some senior bank CEOs assured me to guide me how to articulate complex banking issues and the honorable Governor of Bangladesh Bank Dr Fazle Kabir encouraged me to go ahead with the topic, I took the task of responsibility of the moderator of the dialogue and the writer of the publication.

Interviewing the busy CEOs is a very tough job, but finally I could finish the work for their sincere cooperation and dedication to the banking industry. So, the credit, if any, will go to them and the responsibility for mistakes, may be a lot of, will go to me.

I am still in the learning process. But this writing work has taught me a lot about banking and bank CEOs who in most cases can't speak the truth. So, I have to dropped many bank CEOs who talked me some harsh realities of our banking on condition of anonymity. So the list of CEOs this year is smaller.

But this job has given me to discover that the dialogue on industry topic through a publication has a bigger impact on industry compared to live dialogue at a single location. In today's interconnected business world, such initiative can reduce policy gap to help businesses spur growth and save investors from pitfalls.

So, I am so grateful to the BB governor, bank CEOs and our patrons to bring the publication to the light.

Sincerely yours,
Faruk Ahmed
dhakamoney@yahoo.com



Faruk Ahmed, Economic Editor of The Daily Observer is the author of this special publication and moderated the Annual Print Media Dialogue of Bank CEOs-2016. He is also the writer of three such publications on dialogues of 35 bank CEOs- "Top Bankers Debate Challenges" and "Dr Atiur Rahman & Financial Inclusion: The Battle Against Poverty" both published in 2015; and "Shadow Banking At Crossroads: Where To Go from here?" published in 2016.

A financial journalist with nearly 30 years' of professional experiences in reputed English dailies and television channels, Faruk Ahmed is well known for his innovations in financial journalism. At first, he focused the capital market in 1992 and money market in 1993 in dailies and television channels. Based on CAMEL ratings on 22 commercial banks in 1999, he with his special publication titled "Best Banks

of Bangladesh: Who They Are. What Do they DO?.

He introduced a unique e-trading platform named as DhakaMonet for interbank call money operations in 2009 and performed as the Managing Director of an IT company, jointly with Ispahani Group. The print media dialogue of The Bangladesh Express is the latest works and the latest innovation in financial journalism of Bangladesh.

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The Print Media Dialogue of Bank CEOs - 2016

BB SHARPENING KNIVES TO COMBAT THREATS & THEFTS

Where do bank CEOs stand in the battle?

The introductory Note in Brief

by Faruk Ahmed

The banking industry is under attack from many angles, not just from traditional risks but also new uncertainties. According to the latest CSFI/PWC survey of the risks facing the industry. Uncertainties in the macro-economic environment has been identified as the top risk while regulation remains at the top of the list of concerns and money laundering remains a hot topic, where it is almost five times more likely to occur than in other industries. The sharpest rise in concern is about criminality, including the risks to banks in areas such as money laundering, credit frauds, tax evasion and cyber attack. This risk coupled with continued concern on technology risk, as per the survey findings, where underinvestment and obsolescence, as well as the boom in new "fintech" present major challenges to banks.

Cyber threats and money thefts are now the new concerns for the bank CEOs as these two new endemics are not only hitting the cash vaults but giving rise to new competitors who are challenging traditional ways of doing things and operate using more nimble systems and lower overheads. Cyber security has become a business risk, rather than simply a technical risk for them as hacktivism is changing the threat landscape. Groups like Anonymous are increasingly targeting big banks, and their attacks are not always financially motivated. Nearly 1 million new malware threats are released every day. The adoption of mobile banking is posing new threats, too, as is the advent of the so-called bring-your-own-device movement.

Regulators around the world are waking up and proposing stricter banking rules and some governments are even pursuing penetration testing, also referred to sometimes as "war games," to help strengthen the defenses of their most valuable banking institutions. But bank CEOs are concerned about the impact of rising regulatory requirements on innovation and diversity, as well as their ability to compete effectively against smaller players who are not exposed to the same regulatory scrutiny.

In Bangladesh, the situation is no different and banks and financial institutions are clearly in the firing line and are prominent targets for hackers and frauds. The SWIFT attack to steal money from Bangladesh Bank (BB) is the most recent reminder. Earlier, some big credit frauds popular as Hall Mark, Bismillah and Basic Bank credit scams that embezzled thousands of crore money from banks' cash vaults hit the banking industry as a tsunami when most banks have been limping with high nonperforming assets and crippling with margin pressure. The latest money thefts through ATM skimming from some private banks have hammered the alarming bell for bank CEOs who see some powerful forces are reshaping their industry. **And the real challenge for them is to show by the deeds, and not just their words.**

So the questions for the winning CEOs are: Where lies the greatest need for proactive risk assessment? Is mobile merchant payment the next major battleground for digital financial services providers?

Over the years, Bangladesh banking has been experiencing a plethora of changes as it was geared up to meet international standards, while balancing its commitment to financial inclusion. And the last two years have been particularly significant from a fraud risk management perspective, with the new regulations aimed at improving governance and profitability levels among banks, by mitigating the risk of loan defaults and fraud. The challenge for bank CEOs is to develop comprehensive fraud risk management controls. The recent cyber attack on the SWIFT at BB has further awakened all and prompted the new BB governor Dr Fazle Kabir to begin a war against thefts and threats. He has already strengthened his defensive measures redesigning his risk management tools and sharpening knives to win the battle.

The Big Question is how banks and financial institutions can prepare themselves to fight? And the Top Question is: Where do bank CEOs stand in the race?

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CEO of AB Bank

Threats are coming from our society also from far away

SUMMARY OF DIALOGUES

Shamim Ahmed Chaudhury, Managing Director and CEO of AB Bank Limited is a reputed leading banker of the country who have served both local and international banks during his nearly 36 years' of banking experiences both at home and abroad. Among the private sector banks, AB Bank is the first bank in Bangladesh that has a robust technology platform and an AML software and sanction screening online system to monitor all transactions with the view to arrest any suspicious transactions. In this dialogue the CEO said the big concern for us is money laundering as it is the life line of terrorists financing. Threats are coming from our society, from everywhere and also from far away. The recent terror incident in Gulshan was not just a terror incident but a warning for all societal members to focus on their homes and on their family members.

How well are we doing in fighting the problem? Hundreds of billions of dollars are laundered annually. It's like a battle. It is better for banks to fight it right now, rather than relax and be sorry later. We need collective efforts and collaborative mechanism to fight money laundering. We need more focus on society.

The Moderator's Queue

The recent terrorists attack at Gulshan and money heist from Bangladesh Bank through cyber attacks have warned us all that banks in Bangladesh are vulnerable to various cyber threats and money theft. Some international analysts say global anti-money laundering efforts are just a percentage point away from total failure. So the questions are: How well are the banks doing in fighting the problem? Where do the banks in Bangladesh stand for?

Shamim Ahmed Chaudhury

Before talking about the



topic of the dialogue on threats and thefts in banking, I would like to quote from the former Indian president scientist A. P. J. Abdul Kalam, "If a country is to be corruption free and become a nation of beautiful minds, he said, I strongly feel there are three key societal members who can make a difference. They are the father, the mother and the teacher".

The recent incidents of loan scams, money heist and terrorist attacks in Bangladesh have reminded this truth and brought the society members under the spotlight. In fact, threats are coming from our society, from our family members and also from far away. The terror attack at Gulshan and the BB's money heist are a few examples.

This has put negative impact on our tourism and hotel industries as a number of expatriates came from countries like Japan, Italy, USA and India, our trading partner countries were brutally killed by a group of young terrorists. They didn't come from the sky but lived with us as our society and family members.

After the incident, the hotel industry experienced massive cancellation of bookings not only from foreign tourists, but also from donor agencies and large multi nationals.

The big concern for us is money laundering as it is the life line of terrorists financing. Financial globalization and IT revolution have made it easier for the criminals to transfer funds from one country to another, by avoiding the rule of financial transactions among the countries.

A lot of discussions, however, have been made in this print media dialogue on financial crime and fraud and many advocated for tougher roles. But I think, too much tight regulation would not be the ultimate solution, we need to focus more other issues to win clean the mess with rules and regulations. I think, we must focus more societal issues. We see it in our communities: the drug addicting is becoming very alarming. Human trafficking, fraud in banks, and identity theft are affecting our daily lives. Sometimes law enforcement, policymakers, and the media get so distracted with the immediacy of the criminal behavior that they forget the aim of criminal activity isn't the crime itself—but the proceeds of the crime.

Here a consensus on some national and ethical issues

and a combined movement against greedy traders and drug users can help us to combat money laundering and save society.

The data present a bleak picture

How much money is being laundered globally? Estimates are all over the map, but the bottom line is: a lot. The IMF and United Nations Office on Drugs and Crime (UNODC) estimate the scale of global money laundering falls somewhere around two to five per cent of global gross domestic product, roughly the size of the US federal budget.

Recently the Internal Revenue Service (IRS) of the USA recently disclosed that "money laundering is tax evasion in progress." If tax evasion here and abroad is included in the count, the magnitude of international money laundering is staggering".

How well are we doing in fighting the problem? The data present a bleak picture. According to the a United Nations Office on Drugs and Crime, less than one per cent of global illicit financial flows are seized and forfeited. Raymond Baker, financial crime expert, recently noted that the numbers show enforcement fails 99.9 per cent of the time. "In other words, total failure is just a decimal point away."

A recent finding suggests money launderers face a less than five percent risk of conviction in the US. And, according to the US State Department—buttressed by my personal observations—the situation in most areas of the world is even worse.

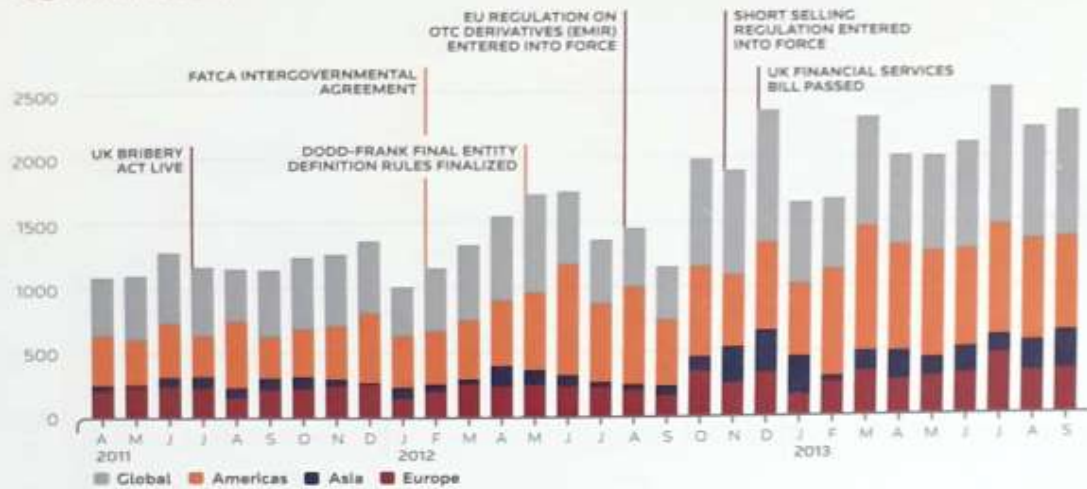
According to the International Narcotics Control Strategy Report (INCSR), hundreds of billions of dollars are laundered annually by way of Trade-Based Money Laundering (TBML). Banks always need to be aware of the potential for money laundering through the use of third-party checks. They should keep an eye out for the third-party check abuse. A careful consideration of these "red flags" will help banks to identify and minimize third-party check abuse.

Different fund transfer methods such as credit card, electronic cash transfer etc. are used by the launderers. It is difficult for the financial institutions to detect the launderer in such transactions. Therefore, to detect the money laundering in the integration process, financial institutions needs to apply "Know Your Customer" policy. However, criminals look for loophole in the KYC procedure in order to perform the integration process. So, the success of the KYC procedure is an important challenge to combat money laundering.

Not too much tougher regulations please!

Today's incidents- yesterday's strategies. So, regulations have started rolling out in the banking industry across the world to combat money laundering. Financial Action Task Force (FATF), the international standard setter for AML/CFT, has introduced 40+9 recommendations

Regulatory Activity Tracked 2011-2013



aiming to money laundering (ML) and financing of terrorism (TF), which applicable to all countries around the globe.

In recent days, regulations in recent days have become tough for banks. Afterwards, in 2012 FATF has revised its 40+9 recommendations and introduced a new set of 40 recommendations by merging them. But in some cases, there are still some gaps. Recently, FATF has advised banks not to apply them too strictly as some rules discourage poor people to enjoy banking benefits.

The Financial Conduct Authority (FCA) Financial Services Authority (FSA) in their thematic review of "Banks' control of financial crime risks in trade finance" in 2013 had highlighted some of the common lapses within UK banks pertaining to trade based money laundering. So, it is true that tougher regulation is not the ultimate solution.

I think, tough regulation is necessary to combat AML/CFT, but it should not be too much tough. We need more focus on society, our homes and collective efforts and collaborative mechanism to fight money laundering. We need to restore social values, keep watch on our family members, our children and our relatives and even on our neighbours.

It's Like a Battle...

Let's face it, this is a war, but it's on a new front. They're a hidden enemy, operating behind the scenes and inside our organizations, our devices, and they're incredibly difficult to detect and to punish. As banks are the most favored channel of laundering illicit funds, so, the big challenge for bank CEOs is how they can combat money laundering and terror financing. The real challenge for them is to combat money laundering effectively.



AB Bank is the first banks that implemented a robust technology platform in its operations and installed anti money laundering software and sanction screening online system to monitor all transactions with the view to arrest any suspicious transactions. The picture shows Mr. Shamim Ahmed Chaudhury, Managing Director and CEO of AB Bank Limited is in a happy mood with his colleagues after installing the platform successfully.

See Page 37

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Regulation alone is not the ultimate solution for addressing de-risking

SUMMARY OF DIALOGUES

Dr Haider Ali Miah, the Managing Director and CEO of Export Import Bank of Bangladesh Limited (Exim Bank), which is a Shariah-based Islamic bank. This year Mexico-based organization World Marketing Organization granted Exim Bank the Golden Medal for Quality & Service Award. During the Annual Print Media dialogue, the award winning CEO hit the dialogue delivering his different opinions regarding the recent regulatory debates on de-risking driven by the tightening regulations introduced by FATF to combat the financing to terrorists.

Effective anti-money laundering need not result in wholesale de-risking but should be "proportionate", and that banks should use "judgment and common sense". In Bangladesh, the regulatory landscape is well defined by prudent time-befitting rules addressing both the de-risking concerns and the financial inclusion. And the BB's regulatory role might be the role model for central banks of developing countries. The BB's tighter regulations, stricter supervision and round-the-clock monitoring are the demand of the time. The real challenge for bank CEOs is to show by the deeds, and not just by the words, Dr Haider said.

The Moderator's Queue

De-risking in financial services is a new concern as it hurts corresponding banking and discourages financial inclusion in developing economies. The FATF has recently revised the tougher KYC rules stating that wholesale discrimination of any group is unacceptable. With this in mind, the question is: How should banks react to the regulator's signposting of its de-risking rules? Where does the BB stand for when financial inclusion is its prime agenda? Is tougher regulation the ultimate solution?

Dr Haider Ali Miah

At first, I would like to express my gratitude to The Bangladesh Express for initiating a unique dialogue of bank CEOs through a special publication. In today's interconnected business world, industry dialogues, policy debates and business discussions among the stake holders can reduce policy gap to help businesses spur growth.



While dialogue or debate as a way to foster understanding, cooperation, and a free and lively exchange of ideas, the print media dialogues have a more impact on business and growth. And thus the publication helps the CEOs to minimize gap with the regulators and industry leaders with the policy makers to mitigate industry problems.

As criminality and technology risks are becoming increasingly concerns of banks and FIs, this print media dialogue on thefts and threats in banking will help us all to take precautionary measures enriching our knowledge through interactions and sharing ideas among market players, policy makers and regulators, I believe.

The key note paper of the dialogue has rightly focused on the money thefts and the cyber threats—the two new epidemics now hammering banks and financial institutions globally. Continued reliance on manual controls to detect red flags and frauds continue to impact the banking sector more significantly than cyber-crime and identity theft.

So regulators around the world are proposing stricter banking rules while some governments are even pursuing penetration testing, also referred to sometimes as “war games,” to help strengthen the defenses of their most valuable banking institutions. One side, this war games are reshaping banks' strategy mainly in two ways—firstly capital-intensive activities are being reformulated or discontinued, and banks will have to balance capital-intensive activities, such as loans, with capital-lite activities such as services, asset management, payments and so on.

This is a big change for traditional banks and new threat to their correspondent banking business. On the other side, clients are demanding digital relationships that requires them to invest heavily in technology to change the business model.

Banking scandal in Bangladesh is widespread, incompetence, corruption and greed have been endemic and the recent bank fraud incidents are now the global hot topic.

In response to a series of loan scandals that many say illustrates a culture of rule-breaking in some leading banks of Bangladesh, the BB has stepped up rigorous scrutiny, strengthened supervision and sharpened its regulatory tools. A war virtually has begun in the country's banking landscape to combat thefts and threats. The real challenge for the banking community is to show by the deeds, and not just by their words.

For the last two years, we have been seeing a significant development in fraud risk management perspective, with the BB issuing several directives aimed at improving governance and profitability levels among banks, by mitigating the risk of loan defaults and fraud.

But cyber security issues remained in the sideline. Recently, the BB has asked all banks and financial institutions to set up appropriate technology platform to safeguard money from cyber criminals and implement KYC practices in their organizations to remain safe. Sound KYC tool is a critical weapon in managing banking risks. So, all banks should implement KYC practices strictly in their every operations in every branches and monitoring the practices strictly.

De-risking: Concerns & BB's approach

Many banking experts say the “Know Your Customer” (KYC) guidelines set by the Financial Action Taskforce Authority (FATF) have made it difficult for financial criminals to access banking services. But it has also made the same situation for unbanked people that damages financial inclusion in developing economies, a unique opportunity for them to grow. For example, banks are now required to know not only their customers but also their customers' customers (Know Your Customers' Customers, or KYCC).

In many developing countries, some banks are withdrawing themselves from providing correspondent banking services for safety and security for this tough KYC rules. Money transmitters, charities and fintech companies are among the sectors particularly affected by the new extended policies.

The regulator has recently republished its expectations with regards to money laundering and de-risking, stating that wholesale discrimination of any group is unacceptable. With this in mind, how do firms avoid excessively risky relationships while ensuring their justification for doing so is considered and robust?

I think, a “proportionate approach” to specific risks needs to be implemented to ensure that consumers are not excluded from facilities. The exact approach should be tailored to the real risks posed by the relationship and by the defined risk appetite of the firm. This would allow firms to strike the right balance between the risks presented, the methods and costs of prevention and the need to prevent to them.

Financial institutions are arguably rational in their determination that the bottom line is not anyhow affected

adversely by the overheads of AML/CFT move. Therefore, bankers are earnestly implementing BB-initiated financial inclusion policy as a good means to offset the overheads of AML/CFT. The goals of financial inclusion, and anti-money laundering and countering the financing of terrorism (AML/CFT), are not inherently in conflict. Here, Bangladesh Bank's policy is unique and its structured approach still is industry friendly.

I think, banks should cooperate and coordinate with the BB on its way to setting streamlined definitions, standards and strategies with regard to AML/CFT- for the sake of a better financial environment in the country.

Is tougher regulation the ultimate solution?

Over the last decade, globally banking sector has experienced a plethora of regulations when in developed economies the prime focus has been the financial inclusion.

A battle against money laundering and terrorist financing has already started at the global level and continue to be stirred by regulatory bodies such as the Basel Committee on Banking Supervision, and the Financial Action Task Force (FATF), the European Commission, while the Basel Committee is consulting on a revised version of its general guide. The new rules, among the nation's strictest, would require senior financial executives to certify personally that their institutions had strong safeguards to identify, weed out and prevent illicit transactions. Violations potentially could subject the officials to legal penalties, which has already reached to a billion dollar amount.

The question has been raised: Is tougher regulation the ultimate solution? My answer is: regulation alone cannot be the ultimate solution. The more the institutions invest their resources in AML/CFT controls, the more secure will the financial markets. Collaboration among banks, regulators and governments are vital components to win the battle.

In Bangladesh, the BB has put more focus on it. It has increased monitoring and supervisory observations on banks and financial institutions with some innovations but not hurting financial inclusion. So, the BB's structured approach to fight for Anti Money Laundering (AML) and Combat Terrorists Financings (CTF) is evidently laudable and a unique model for the third-world countries. It is not too much tougher rather friendly to financial inclusion.

Where do we stand in the battle?

At Exim Bank, we put more focus not only on KYC implementation practices but also on the policy of recruitment process as, we believe, placement of the right people in the right places is necessary to stop loan frauds, money laundering and financing to terrorists. To prevent cyber attacks, we have upgraded our IT security systems and our process does not end here. We are continuously adopting the latest technology to scrutinize

all transaction process and strengthen credit risk management tools to combat all threats and thefts in our banking operations. But we need to do more as criminals are clever, brilliant and are likely to attack us any time. Recently, we have fitted our ATMs with PIN shields and anti-skimming devices. We have SMS notification to account holders for all sorts of withdrawals and deposits and are going to make more secure ATM cards with EMV chips and OTP (One Time Password) very soon, while encryption process of interunit data communication is underway. We are reviewing several systems to prevent the systems from new threats like Advanced Persistent Threats (APT), Zero-Day Attacks etc.

For perimeter security, we have deployed next generation firewalls with Intrusion Detection System (IDS) and Intrusion Protection System (IPS) for all inbound and outbound traffic. We are periodically conducting Vulnerability Assessment and Penetration Tests in many of our banking systems to ensure they are protected from any kind of attacks.

Thank you all. Thanks for The Bangladesh Express for organizing such a valuable print media dialogue of bank CEOs.



A Freedom Fighter and versatile banker Dr Ali Miah started his banking career in February 1984 and received many awards for his banking endeavours, dedication and commitment to the society. In acknowledgement of his professional excellence, the World Confederation of Business, USA declared him "World Leader Business Person" in 2015 and for his quality leadership, ACQ Global, UK proclaimed him "Game Changer of the Year 2105." He was declared the "Most Talented Islamic Banking Professional (CEO)" in a CMO Asia-sponsored conference held in Singapore in 2014.

২০১৫ সাল জনতা ব্যাংকের অনলাইন ব্যাংকিং কার্যক্রম বাস্তবায়নের এক অনন্য সফলতার বছর



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CEO of Eastern Bank

Banks must follow compliance to remain safe

SUMMARY OF DIALOGUES

A visionary banker and a dynamic leader, Ali Reza Iftekhar is the CEO and MD of Eastern Bank Limited. Under his leadership, the bank has achieved many a laurel from national internationally reputed organizations like The Asian Banker; the IFC; ICSB. He is the immediate past Chairman of Association of Bankers, Bangladesh (ABB). In this dialogue, the CEO focused on compliance issues with spot light on the growing concern from cyber threats. Banks cannot ignore that they are the custodian of depositors, so they should follow compliance and rules may be tougher or softer to safeguard depositors' money. If banks ignore rules, definitely they will fall, he said.

As the world becomes more and more connected to the Internet through computers, the CEO said, cybercriminals are looking for ways to exploit people and criminals are becoming more 'fearless' targeting big banks. The big concern for both the bankers and the regulators is how they can defend against it and what the regulators can do. Definitely, all banks and credit unions need to prepare themselves to face the threat challenge and must follow the regulations to keep safe the industry. The next ten years in risk management may be subject to more transformation than the last decade. And unless banks start to act now and prepare for addressing these longer-term changes, they may be overwhelmed by the new requirements and demands they will face.

The Moderator's Queue

In Bangladesh, the recent incidents of cyber attacks have alerted both bankers and regulators to focus the technological risks and increase investment in IT. The question has been raised: Are banks just paying lip service to digital transformation?

Ali Reza Iftekhar

When crime has become global, and the financial aspects of crime have become more complex driven by evolving in technology and globalization of financial services industry, then we bank CEOs in Bangladesh are in a unique print media platform to discuss the issues.



Naturally the digital banking transformation will lead the dialogues as it has changed the banking

landscape allowing outside disruptors to drive a dagger through the heart of banks.

As the world becomes more and more connected to the Internet through computers, cybercriminals are looking for ways to exploit people and becoming more 'fearless' targeting big banks. So, managing risks and compliance are still the prime tasks for banks. The success will depend on execution and supervision of the tasks.

The big concern for us is how banks can defend against it and what the regulators can do. Definitely, all banks and credit unions need to prepare themselves to face the challenges. Banks that are not investing in this direction

rising in line with changing technology, so, regulation will continue to broaden and deepen. Banks must follow compliance to remain safe from various risks.

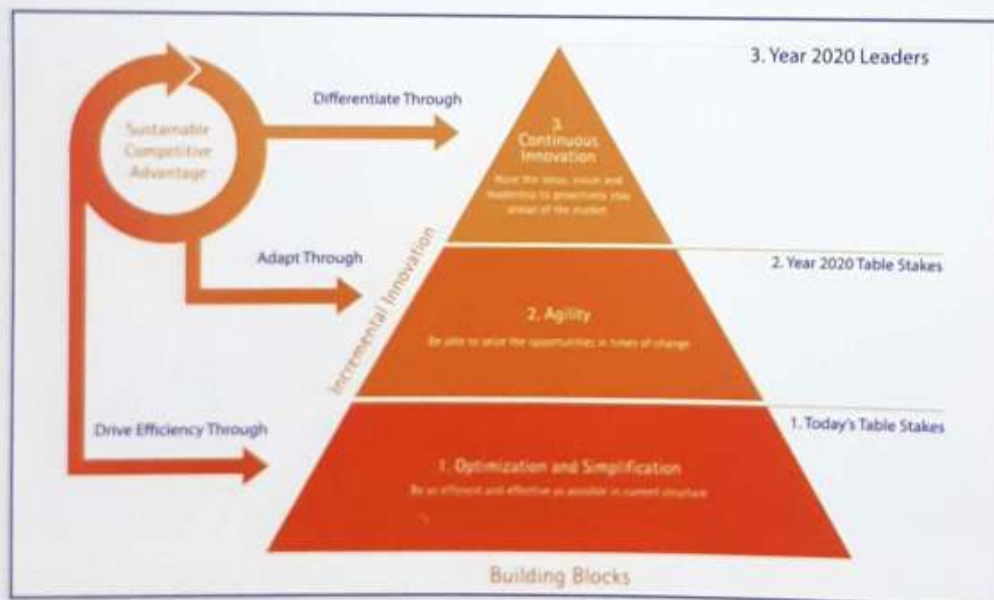
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The next ten years in risk management may be subject to more transformation than the last decade. And unless banks start to act now and prepare for addressing these longer-term changes, they may be overwhelmed by the new requirements and demands they will face.

Risk management would be automated

Risk management in banking has been transformed over the past decade, largely in response to regulations that emerged from the global financial crisis and the fines levied in its wake. In the next decade, risk management will experience even more sweeping change. The change expected in the risk function's operating model that illustrates the magnitude of what lies ahead.

The future of bank risk management would be automated, robust surveillance and monitoring will be increasingly critical. This is the only way to ensure a very low error rate within the first line of defense and to allow proper oversight by the second line. As a result big



today certainly will be behind the curve very soon. However, they must build their own defense without depending on outsiders.

As technology and advanced analytics are evolving, so, new risks are emerging. Customer expectations are

global banks are now focusing on their own people.

Today, according to McKinsey research, about 50 percent of the function's staff are dedicated to risk-related operational processes such as credit administration, while 15 percent work in analytics. The research



Ali Reza Iftekhar, Managing Director & CEO of Eastern Bank Ltd (EBL) receives a letter of appreciation from S. K. Sur Chowdhury, Deputy Governor of Bangladesh Bank for achieving disbursement target of agri-lending for the financial year 2014-2015.

suggests that by 2025, these numbers will be closer to 25 and 40 percent, respectively.

To prepare for new risks, the risk-management function will need to build a perspective for senior management on risks that might emerge, the bank's appetite for assuming them, and how to detect and mitigate them. And it will need the flexibility to adapt its operating models to fulfill any new risk activities. To prepare for new risks, the risk-management function will need to build a perspective for senior management on risks that might emerge, the bank's appetite for assuming them, and how to detect and mitigate them. And it will need the flexibility to adapt its operating models to fulfill any new risk activities.

Is tough regulation good for banking?

I think, tough regulation is good for banking, not too much tougher, as criminals are now fearless and banks are their prime targets. Bank CEOs cannot ignore that they are the custodian of depositors, so they should welcome regulations- tougher or softer to safeguard depositors' money and ensure returns for their shareholders and investors. If banks ignore rules, definitely they will fall.

The problem is that tightening the reins can also have the unintended consequence of forcing some bankers to move away from the positions where their expertise and experience is sorely needed. So, regulators should consider the longer-term effects of regulation, rather than just solving immediate problems and reacting to public ire in knee-jerk style. The existing rules promulgated by Bangladesh, however, are industry-friendly, predictable, transparent and consistent. But increased oversight is necessary to restore and enhance trust.

Regulatory supervision, often through oversight from multiple regulators, has moved beyond the planning phase and is now focused on tools and implementation supported by strong ethics, culture, and related accountabilities at every level of the organization. A balance must be made between the regulation and independence of a bank. This means that banks should neither be overregulated nor should they be left alone to enjoy complete freedom, which often results in banking disaster.

To balance the objectives of good governance and ensure compliance of regulations a strong and independent central bank with more focus on core banking issues.

How firms can use risk & compliance data to drive customer centricity





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CEO of Islami Bank Bangladesh



Greed is the root cause of banking threats

SUMMARY OF DIALOGUES

Mr. Mohammad Abdul Mannan, the Managing Director of Islami Bank Bangladesh Limited- the largest Bank in the private sector of Bangladesh is a fellow of Malaysia based International Centre for Leadership in Finance (ICLIF) and now leads the Task Committee of Islamic Banks Consultative Forum, the apex body of Shariah based financial institutions in Bangladesh. In the Print Media Dialogue, the CEO said greed, lack of professionalism and ethical lapses are the root causes of thefts and threats in today's banking world. Bangladesh Bank has introduced stricter rules to ensure ethics, morality, professionalism and corporate culture in banking operations. Bank regulations are only as good as banking culture and their leadership. More bad headlines are to come as Bad Apples are still alive and the main actors of the financial industry.

Mr Mannan said greed is the motive for credit frauds, loan scams and cyber attacks in banking. Bangladesh Bank has introduced stricter rules to ensure ethics, morality, professionalism and corporate culture in banking operations. So, dishonest and greedy loans have been the bane in the banking industry. In Bangladesh, thousands of crores of money were swindled by a few bad apples in collaboration with some dishonest greedy bank executives in the recent past, while another thousands of crores of taka still are kept by a few big businessmen who are loan defaulters but being look after by bank CEOs.

The Moderator's Queue

The banking industry has witnessed high-profile security breaches and loan scams over the last few years. The question is: What strategy banks should adopt to win the battle against frauds?

Mohammad Abdul Mannan

Many scandals... have plagued the financial industry in the last decade. These scandals raise the question whether the business culture in the banking industry is favoring, or at least tolerating, fraudulent or unethical behaviors.



I think that greed based banking is the root cause of thefts and threats in today's banking and financial world. If we look back to the recent incidents of scandals in the banking

world from UK and Wall Street to Bangladesh and Philippines, we will see the greed behind the scene.

Greed has been identified as one of the causative agents for the high incidence of fraud and other unprofessional misconducts in the banking industry. Some of the reasons for unethical practices are conflict of interest, greed, fraud and insider abuse, internal control, regulation, supervision and surveillance.

In fact, greed is alive and well in banking. It is the motive for credit frauds, loan scams and cyber attacks in banking. Greed is fueled by a banking culture that implicitly puts financial gain and dishonesty and makes bankers more likely to cheat. Bangladesh Bank has introduced stricter rules to ensure ethics, morality, professionalism and corporate culture but regulation cannot do everything; nor should it aim to. Bank regulations are only as good as banking culture and their leadership.

Bad apples main actors of banking culture

More bad headlines are to come as Bad Apples are still alive and they are still main actors of the financial industry. The incidents of the recent frauds are the alarming bells for us. The cold truth is that bankers are too much worried now as there are no safeguards against human nature. So, dishonest and greedy loans have been the bane in the banking industry, which has accentuated the distress syndrome in the industry by weakening the deposit base.

Many scandals... have plagued the industry as those stand on greed based banking concept not need based like Islamic banking. But the scandals raise the question whether the business culture in

the traditional banking industry is favoring, or at least tolerating, fraudulent or unethical behaviors. So ethics is concerned with the code of values and principles and whether banking is a profession is now open to debate. Here both bankers and customers have to put some degree of trust in the behaviour and competence of those they are dealing with, they must act professionally.

But the reality is different. When it comes to raising standards of culture and behaviour, the financial services industry is "not close to where it needs to be". However, over the years, both the bankers and the regulators have realized that not only technological weapons, they need to improve the culture within the organizations to combat threats and thefts.

In Bangladesh, thousands of crores of money were swindled off by a few bad apples in collaboration with some dishonest greedy bank executives in the recent past, while another thousands of crores of taka still are kept by a few big businessmen who are loam defaulters but being look after by bank CEOs. To stop such future frauds, we must ensure ethics, morality, professionalism and corporate culture in our banking operations.

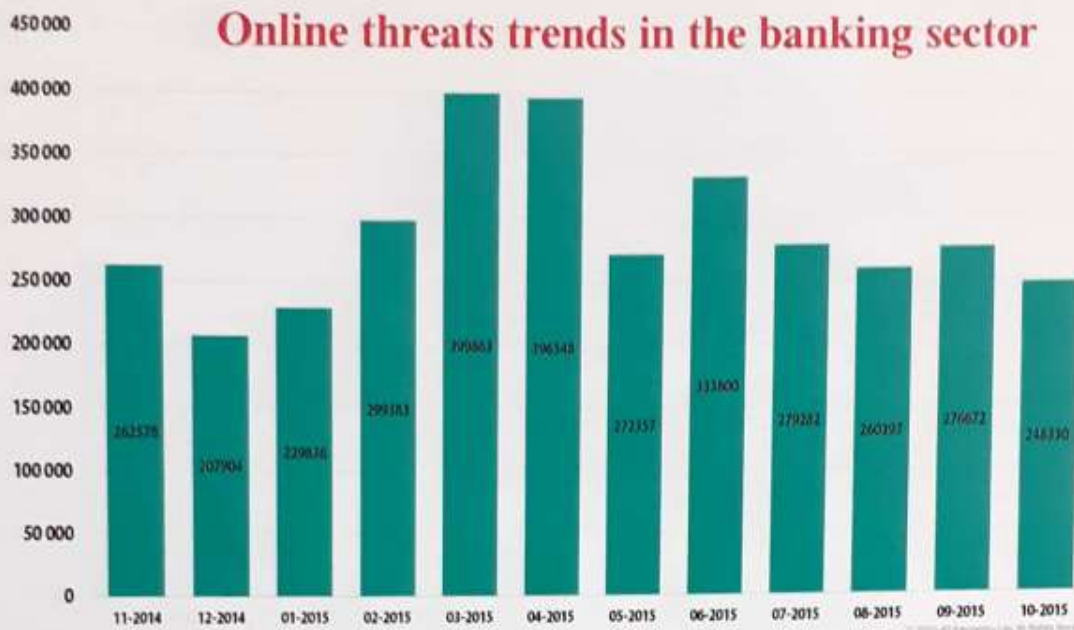
Banks should matching defense system

Globally banks are under threats of cyber criminals, experts say yet 4 million people fall victim to fraudsters each year. Banks are the natural owners of the payments space, so, attackers are developing payments-service capabilities and operational skills superior to those of banks. They are not smarter, just more focused. Banks' customer relationships, structural security, multichannel capabilities, and stability should ultimately combine to win the war game.

But banks will succeed only if they can develop a strong defense system integrating men and machine. They need to match the solutions, integrate men and machines, operational efficiency, and client-service skills of attackers. And they must get there quickly as in the digital world, tomorrow is already too late.



Mr. Mohammad Abdul Mannan, Managing Director of Islami Bank Bangladesh Limited is seen inaugurating the IBBL Debit Card.



The recent terror attack in Gulshan has given the alarming message that no one is now safe from terror attacks and banks are the prominent target of bad apples- the main actors of bank frauds from ATM skimming to money laundering for terrorists financing. So, all banks now need to leverage best practices for developing cyber security policies, encourage the formation of cyber threat intelligent centres and ensure collaboration between the chief information officer or chief information security officer and government bodies.

The most important concern for all of us is the money laundering that finances to terrorists. So, the regulators are becoming stringent in managing money laundering risks and many laws are being imposed by them. This is a big concern for the banks like Islami Bank Bangladesh Limited (IBBL).

We deal with around 10 (ten) million depositors, 9% of the national investment (credit) portfolio, 11% of the national import business, 10% of the national export business and 26% of the national remittance in-flow. The bank has extensive and the largest business relationships with both the reputed local and global organizations and has to execute a large volume of international businesses through New York clearing house.

Where we stand in the battle...

At Islami Bank Bangladesh Limited (IBBL), we are very cautious about the ethical and professional issues in banking operations as the foundation of Islamic finance is based on the five major tenets (pillars) of Islam:

The first is shahada, or creed, which translates as 'to know or believe without suspicion, as if witnessed.' The second is salats, the daily prayers made by faithful Muslims. There are five calls to prayer during the day and people take time out of their busy schedules to kneel and

pray. The third pillar is swam, which is the period of religious fasting during the month of Ramadan. The fourth pillar of the faith is zakat or almsgiving to the poor.

And the fifth pillar of the Islamic faith is the hajj or religious pilgrimage taken to Mecca, Islam's Holy Land. The influence Islamic divine law has on everyday life is extraordinary. Shari'a Law has helped us to develop a distinctive corporate culture in our organisation, the main purpose of which is to create a collective morality and spirituality which, when combined with the production of goods and services sustains the growth and advancement of the Islamic way of life.

In our credit operations, we maintain strictly the compliance with key focus on KYC, KYCC and CDD that help us to remain safe from any frauds and loan scams.

In technology front, IBBL is using a comprehensive suite of data, solutions and services that provide unparalleled defence against participation in illicit financial activities. They are now performing combine Microsoft's powerful transaction and customer screening solutions with their accurate data, flexible and scalable filtering solutions, offering IBBL greater protection against money laundering activities.

More than ever, now IBBL can effectively reduce risk, increase operational efficiency and lower the cost of AML compliance. using the industry's most comprehensive data from all major sanctioning bodies, law enforcement agencies and financial regulators, including 100% coverage of all publicly available regulatory lists from around the world to reduce false positives. To prevent money laundering, we use the largest Politically Exposed Persons (PEP) database in the world covering over 1.5 million entities in 240 countries and territories.



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**Innovation is
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survive**

SUMMARY OF DIALOGUES

Mr. Anis A. Khan, a fellow of the Institute of Bankers, Bangladesh (IBB) is the Managing Director & CEO of Mutual Trust Bank Ltd. (MTB) since April 2009. A career banker, Anis earlier served for 21 years, in a multitude of roles, with the then Grindlays Bank p.l.c. and with its successor banks – ANZ Grindlays and Standard Chartered Bank (SCB), both in Bangladesh and abroad. He is the Chairman of Association of Bankers Bangladesh Limited and associated with dozens of trade bodies and social organisations. During the print media dialogue, he said that the recent BB money heist by cyber criminals is the red alert for us.

The next decade in banking will see both evolution and revolution, when cyber attacks has already emerged as a major threat to the digital transformation of Bangladesh given the poor knowledge and lack of government initiatives to counter the growing problem. Innovation, collaboration and digitalization are imperative to survive for long. So, banks must reinvent themselves, not just to respond to the pressures of today. While life with banks can be rough, life without banks can be brutal. Competition is good, as is innovation, especially if they create inroads for new and currently underserved consumers to access and use traditional financial services, Mr. Khan said.

The Moderator's Queue

Most big banks fear cyber attacks are more than regulation, faltering economic growth and other potential risks. The question has been raised: Is digital transformation is under the threat now?

Mr. Anis A. Khan



In February last, cyber-thieves stole \$81m from Bangladesh's central bank. It could have been an even bigger heist — the thieves tried to transfer more than \$900m from the bank to the US Federal Reserve via the global payment system, but were foiled. The money was transferred via SWIFT (the Society for Worldwide Interbank Financial Telecommunications), the messaging system owned by 11,000 of the world's leading banks that process about half of global cross-border payments. It has since emerged that banks in Vietnam and Ecuador may have been hit by similar cyber-heists. SWIFT has warned there may have been more, with hackers infiltrating banks' systems to steal money via the network.

This was not the first time. Bangladesh has witnessed high-profile security breaches over the last few years. In recent months, Taka 1 crore was withdrawn from ATMs of several banks by fraudsters. Security experts claim that the management failure and internal breach were the reasons for such frauds. Repetition of such incidents certainly will affect the banking sector. The government has formulated a cyber security law, but in the absence of a legally-binding international treaty on cyber crime, there are doubts how much cooperation will the country get from others.

The red alert for us

Globally, banks are facing higher regulatory fines for regulatory lapses and investing billions of dollars in IT security system and human resource development to face the challenges coming from cyber criminals who rob money from cash vaults sitting on a table in a comfortable room far away. Global cyber-syndicates are coming up with ever more innovative methods of hacking into banks systems and payments systems and Bangladesh Bank may just have been the unlucky central bank to be targeted. But this has issued the red alert for us that no one is safe from cyber criminals as we are passing an era of digital transformation and Bangladesh banking sector is clearly in the firing line.

The big concern is that hacktivism is changing the threat landscape and banks in Bangladesh are now highly targeted by cyber criminals. Hackers are more intelligent than many other system installers, so to prevent the hacking, it is imperative for banks to develop and install highly secured and robust systems in their operations.

Bangladesh Bank recently has taken the right stance with tighter regulations in this regard and banks must follow the regulation, if they want to survive.

According to Websense, the finance sector is hit by security incidents 300 times more frequently than businesses in other industries. There is also a need to build a more cohesive community of regulators, banks, technology providers and enforcement agencies to counter these threats on a global scale. Besides of better risk management plans and investing in technology to abet cyber thefts, the banks should continue to educate and enhance customer awareness - being equipped with information maybe one of the best hacks against a plotting criminal.

Those old days have gone forever

We're starting to look at that stuff more closely, how we can defend against it and what we can do. Those old days have gone forever when robbers came to bank physically and looted money from cash vaults holding up bank officials at gun point. Now these robbers sitting in a table at a comfort room are hacking money from banks at far away. While traditional bank robbers are limited to the amount of money they can physically carry from the scene of the crime, cyber thieves have a seemingly limitless supply of accomplices to help them haul the loot, by hiring so-called money mules to carry the cash for them. The big concern for us is that the banks are under attack not just from traditional risks but also new uncertainties, cyber attack, financial frauds, security beaches and increased compliance costs and some double dagger regulations that may drag profits. Several study reports published recently have already suggested banks and FIs to focus on the issues of banking digital transformation. The reality is that our banking is lacking many things and cyber attacks could emerge as a major threat to the digital transformation of Bangladesh. But why should the financial service firms be more cautious?

Innovation is imperative

Now we see powerful forces are reshaping the banking

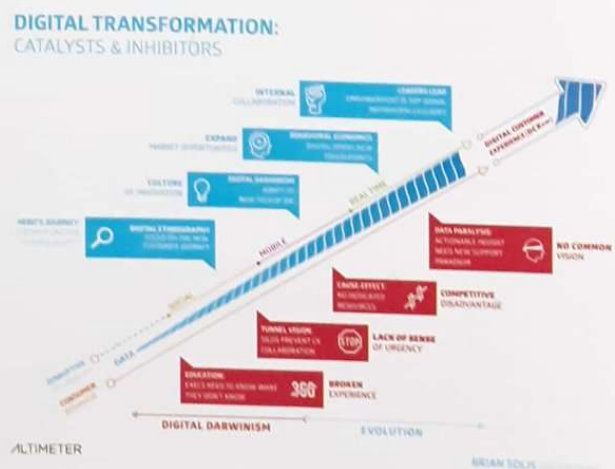
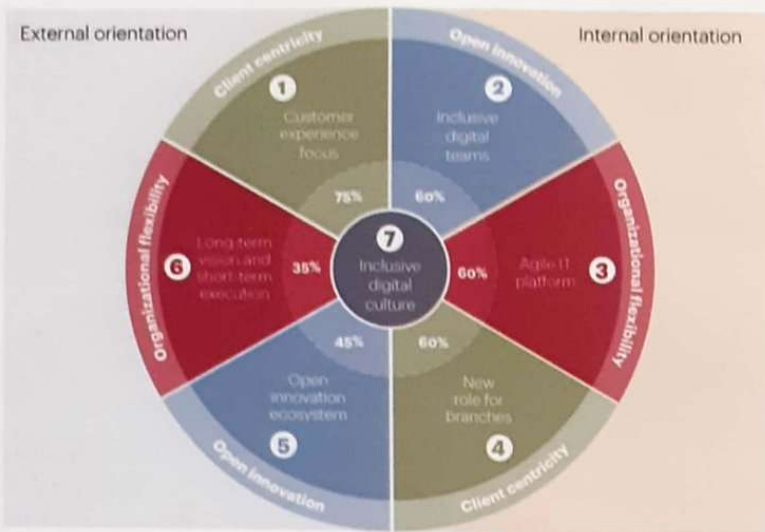


Figure 4
Seven success factors for digital transformation in banking



Note: Percentages are respondents who cite this as a key success factor for their company.
Source: A.T. Kearney analysis

industry. Customer expectations, technological capabilities, regulatory requirements, demographics and economics are creating an imperative to change. So the question is: Fearing the growing cyber threat, should we be afraid of transformation and digital innovation?

I think, we should not be afraid of digital transformation as innovations in technology are already demonstrating the potential to drive a revolution through parts of the industry in Bangladesh creating new markets for banks as customer needs evolve. So, we should not be afraid of any threat of transformation. What we need to speed up digital revolution through innovation and collaboration. Because, technology is changing the way that customers interact with financial institutions.

Transformation is necessary for us because we bank CEOs face an array of stakeholder pressures. We must find a way to deliver improved performance for investors who have tired of high volatility but low returns on equity. So, innovation is imperative to drive banks now and transformation is necessary to survive. As for financial innovation, banks need to look at what I call 'defensive' financial innovation – such as mobile banking – and think about how to innovate 'offensively' without compromising risk.

While life with banks can be rough, life without banks can be brutal. Competition is good, as is innovation, especially if they create inroads for new and currently underserved consumers to access and use traditional financial services. The concern is that cyber threats could also emerge as a major threat to the digital transformation of Bangladesh, according to a recent study by PWC, given the poor knowledge and lack of initiatives to counter the growing problem.

Banks must reinvent themselves

In the last few years technology has rapidly evolved — big data, cloud computing, smartphones and high bandwidth are all now commonplace. The pace of innovation will continue to increase, and financial institutions will need to enable or leverage this innovation if they want to keep up. Investment in IT infrastructure has increased massively over the last few years, but many traditional banks still remain behind the curve.

While the digital revolution requires banks to behave in ways that they are not quite accustomed to, so it requires extremely clear and quick cross-functional collaboration. For example, mobile banking is growing at a remarkable speed around the world particularly in developed countries where millions of people are unbanked.

But technological nuances make the mobile channel a little different, and the financial industry is only beginning to wrap its brain around some of the fraud and security-risk potentials. The success of this scheme is critically dependent on finding the right business model that makes the retail providers of cash-in/cash-out services profitable. So regulators should come up with appropriate model to ensure business growth as well as to prevent any possible thefts and threats from such operations.

The next decade in banking will see both evolution and revolution. So, banks must reinvent themselves, not just to respond to the pressures of today, but to be flexible enough to adapt to the world of tomorrow. To fund their transformation, they will need to become simpler and more efficient.

Regulation is not enough, needs innovations

Money laundering is now a big threat for mankind as it hits not only the economy but also society financing drugs and terrorists. Regulations are not enough to combat money laundering but need innovative technology platform to monitor KYC implications strictly and above all need collaborative approach in all operations.

However, the challenge for banks is to develop comprehensive fraud risk management controls that will not only prevent frauds but detect them as soon as they occur and respond to them. This situation signals the need for quality guidance that banks can use to develop and implement a fraud risk management strategy.

So, all banks should respond positively to regulatory efforts to better understand risks and evolved from being fragmented and informally governed to being well regulated and in many instances, adopted best practices in technology, innovation and risk management as well as governance.



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CEO Of Trust Bank
**A slow-drip torture
of incidents are
eroding trust**

SUMMARY OF DIALOGUES

Mr. Ishtiaque Ahmed Chowdhury is an award winning CEO is the Managing Director and CEO of Trust Bank Limited. He started his career in 1977 and has gained grounded experiences in many fields with expertise in rural banking during his long banking career. In the dialogue, he commented that the banking should be regulated strictly as the confidence has been shaken by a few bad bankers and customers.

A war for talent is heating up across the industry. Clearly the leadership culture in banks has failed to put trust and integrity into practice in a broad, holistic framework. This is a big threat for us as we believe banks need to show an active willingness to practise and value integrity. It needs people who have their customers' interests at heart and who within this ethical framework have the ability, autonomy and confidence to exercise judgement when presented with situations that are not straightforward, Mr. Chowdhury said.

The Moderator's Queue

The banking industry has witnessed high-profile security breaches and loan scams over the last few years and bank closures and abuse of depositor funds have been the hallmark of factors that have led to erosion of trust and confidence. These scandals raise the question whether the business culture in the banking industry is favoring, or at least tolerating. The big question to the bank CEOs is: Should regulation be more tough to ensure trust and confidence in banking sector?

Mr. Ishtiaque Ahmed Chowdhury

The Governor of the Bangladesh Bank, Dr Fazle Kabir recently sent a strong message to the Bangladeshi businessmen who default thousands of crores of bank money, but maintain a lavish lifestyle and also the bankers who sanctioned loans for them.



He felt that because of the culture of impunity, these defaulters get away with far worse. The Deputy Governor of Bangladesh Bank Abu Hena Md Raji

Hasan, who is the chief of the National Task Force for Anti Money Laundering has given another message to all that money laundering has become the big threat for all nationals across the globe.

“Global terrorist networks simply cannot thrive without moving significant amounts of money throughout the world. So, the BB will do everything they can to stop that flow of illicit funds”, he said and hinted tougher measures in the coming days.

The message is clear a warning for bankers as a sum Tk 275,000 crore has been siphoned off, while Tk 30,000 swindled out from banks in Bangladesh and a large amount of loans are still in the pockets of a few big businessmen. The Finance Minister AMA Muhith has termed the incidents as “massive thefts”. The Hall Mark, Bismillah and Basic Bank scandals have raised the question about the integrity, confidence and trust in banking sector of Bangladesh.

When digital disruption is threatening the industry globally, then eroding trust has been emerged as a big threat to banking. Many global banking leaders have already expressed concern that customers won't trust banks for a generation and at the same time banks would loss confidence on their high profile customers for their default culture.

The debate around trust and confidence in banking has not been diminished by any sense of the familiar. A "slow-drip torture of incidents, events and court cases" are eroding trust in the banking industry in Bangladesh. Despite this fragile situation, some banks are still providing huge amount of short term loans to big borrowers who have already in the Bangladesh Bank's top defaulter list. The others are avoiding this risk but facing the brunt of lower profitability. These borrowers are very important persons of the society and maintaining luxurious life styles but do not pay back loan money.

So, banks and other financial institutions are facing

highly challenging times now. And the big concern is that too much tough regulation may push the banks to a dire situation pushing cost higher.

The analogy that best describes the subject of confidence between banks and depositors is one of a relationship between husband and wife. The trust and confidence are eroding in banking from both sides. What banks need to do to be trustworthy is one thing, but what society then does to trust banks is another.

In fact, for leaders today, it's arguably a more challenging priority now than it was in 2008 – with each passing crisis making it harder for banking industry to credibly talk of lessons being learnt. Many study reports conclude that the global financial crisis was the outcome of greedy incompetent bankers.

But the issue remains in the sideline and we only blame the bankers for the incidents. The banking industry has witnessed high-profile security breaches over the last few years and bank closures and abuse of depositor funds have been the hallmark of factors that have led to erosion of trust and confidence.

In Bangladesh, we have seen the intensity of the events a bit clearer over the last decade. Clearly the leadership culture in banks has failed to put trust and integrity into practice in a broad, holistic framework. This is a big threat for us as we believe banks need to show an active willingness to practise and value integrity. Strong relationships are based on trust. Organizations can build a culture of trust by cultivating honesty and integrity in workers' interactions.



Regulatory expectations continue to rise

The good news is that globally regulatory expectations continue to rise, with increased emphasis on each institution's ability to respond to the next potential crisis. And the bad news is that too much tough regulation may push the banks to a dire situation pushing cost



Banking Finance & Operations hiring outlook: choppy waters and a shortage of quality

higher.

I think, the banking needs to be more regulated strictly as the confidence has been shaken by a few bankers and customers. While increased oversight has been necessary to restore and enhance trust in the sector, there is a fine line between restoring trust and strangling opportunity through high compliance costs, increased capital requirements and disproportionate penalties. So, regulators need to make sure that they do not take the "great re-regulation" practices too far.

In Bangladesh, regulatory supervision has moved beyond the planning phase in recent time and is now focused on tools and implementation supported by strong ethics, culture, and related accountabilities at every level of the organization.

The most vital rules the BB recently has introduced are KYC and CDD to prevent fraud and unethical practice. Benami Accounts are the root cause of money laundering and black money layering in the economy via banking system, while customer due diligence is essential to stop money swindling from banks. In-order to up-root this - KYC is one of the medium. The Address and Identity proof of the customer is verified both by way of physical visit to address and with original documents. This is an on-going process to regularly keep check on customer's profile and identity. This to some extent helps banks to fight Identity Theft and Identity Fraud.

The terrorist attacks of Gulshan vividly illuminated the importance of anti-money laundering laws and controls. To prevent money laundering, revision of corporate governance systems is a vital element that can drive confidence in the banking sector. Abuse of depositor funds by

directors and shareholders deters people and corporate bodies from engaging banks and eroded trust and confidence among customers.

So, the BB has rightly set tight corporate governance tenet that has put a plug on activities such as insider lending. But the question of internal breach is still alarming. So, ethical practice, trust and confidence should come under the stringent regulatory focus.

The "war" for talent is heating up

The banking sector today is facing acute manpower problems when growing talent leads business. A new generation of talent is insisting on a more environmentally conscious approach to business. So, the "war" for talent is heating up across the world. And definitely, bank CEOs should put more focus on it. Competition to attract for talent isn't just coming from traditional peers, either, but also fintech start-ups and technology groups looking to develop their presence within the Banking and Capital Markets and wider financial services market. Driving delivery of technology and innovation will be critical in delivering the choice, service and pricing bank customers want.

In an industry where talented specialists are always in high demand, it will certainly prove challenging for many bank CEOs to keep their top performers and, indeed, attract new experts to combat thefts and threats in banking by restoring trust and confidence. As the economy continues to show signs of positivity, it seems the credit risk and IT arena still has a number of challenges to contend with. The coming years, then, looks set to be extremely busy for IT and risks management professionals.



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CEO of Meghna Bank **Tough regulation is not a panacea for banks**

SUMMARY OF DIALOGUES

Mr. Mohammed Nurul Amin, Managing Director and CEO of Meghna Bank Limited is a senior banker & Chairman of Bangladesh Foreign Exchange Dealers' Association and former Chairman of Association of Bankers Bangladesh. Addressing the dialogue, the CEO said some powerful forces are reshaping the global banking industry and the banks are passing through a specific set of risks and challenges. So, the regulators are coming with tougher regulations, which has become a great concern for CEOs when most banks are under pressure to manage returns under the existing risk management framework. There is a need for the banks to evaluate their current operating practices.

Mr. Nurul Amin said banks in Bangladesh are under pressure with higher loan loss provisions while different risks still remain as a big threat to their growth. The next ten years in risk management may be subject to more transformation than the last decade. And unless banks start to act now and prepare for addressing these longer-term changes, they may be overwhelmed by the new requirements and demands they will face. Growing talent leads business, so banks must employ talents in its defensive wing to win the battle.

The Moderator's Queue

After some odd incidents, Bangladesh Bank has awoken up and sharpen its regulatory tools to keep banks safe from various threats and risks. The questions have been raised: Where lies the greatest need for proactive risk assessment? Beyond risk, what other areas are to be highlighted to win the battle?

Mohammed Nurul Amin

When the global banking industry is under attack from many angles, not just from traditional risks but also new uncertainties, then the print media dialogue of The Bangladesh Express is no doubt a unique initiative for the banking industry and an opportunity for bank CEOs to chart the course.



The use of internet and other technologies have enhanced the risk of attack from cyber criminals

which has changed the landscape of risk management strategy when the current wave of capital market liberalization and globalization is prompting the need for enhanced risk management measures, especially for the developing economies and emerging markets.

The recent cyber attacks in our banking industry has raised question about our ability to manage technology risks while some fraud incidents have shed light on ethical issues in banking practices.

In recent years, banks have incurred billions of dollars in losses from cyber crimes and regulatory fines and last month the big banks' Libor manipulations resulted in trillions of dollars of financial instruments being priced at the wrong rate. In Bangladesh, some banks faced such punishments and this has become a great concern for CEOs when most banks are under pressure to manage returns under the existing risk management framework.

So, the question has been raised by the moderator of the dialogue: Where lies the greatest need for proactive risk assessment? Beyond risk, what other areas are to be highlighted to win the battle? Where lies the greatest need for proactive risk assessment?

Big risks coming from cyber front

When most banks are facing tough situation to manage return with lower growth and rising competition and increased regulatory pressure, then cyber threat has become the top concern for banks in Bangladesh. In February, computer hackers stole \$101 million from Bangladesh's central bank.

In a potentially disastrous move, they gained access to SWIFT, the worldwide interbank communication network that settles transactions. Hackers performed that attack a second time recently, on what is believed to be a commercial bank in Vietnam. Over the years, globally the banks have incurred billions of dollars in losses. Although, with the advent of technologies, the banking sector has been able to reach more customers

however, it has also enhanced the risk for customers who often feel reluctant and insecure in opting for such services. There is a need for the banks to evaluate their current operating practices.

Despite prudential reforms, according to recent world class survey, banks globally are now vulnerable to high debt levels, future interest rates, weakness in emerging markets, and softening commodity prices. In the coming days, lower growth rates, together with regulatory reforms will put pressure on banks to manage returns.

But the sharpest rise in concern was about criminality (including the risks to banks in areas such as money laundering, tax evasion and cyber attack). This risk coupled with continued concern on technology risk where underinvestment and obsolescence, as well as the boom in new "fintech" present major challenges to banks.

Evolving risks management strategy

As technology is evolving, banking is changing, so, the risk management strategy is evolving. Evolving technology and advanced analytics are enabling new products, services, and risk-management techniques, while de-biasing approaches that improve decision making will help risk managers make better choices about risks. However, the risk function of the future will probably be expected to deliver against all these requirements and deal with these trends at a lower cost, because banks will in all likelihood have to reduce their operating costs substantially.

As hard as it may be to believe, the next ten years in risk management may be subject to more transformation than the last decade. And unless banks start to act now and prepare for these longer-term changes, they may be overwhelmed by the new requirements and demands they will face. The future of bank risk management would be automated, robust surveillance and monitoring will be increasingly critical.

This is the only way to ensure a very low error rate within the first line of defense and to allow proper oversight by the second line. As the rules become ever more complex and the consequences of noncompliance ever more severe, banks will likely have no choice but to eliminate human interventions as much as possible in risk's dealings with customers and to hardwire the right behaviors into their products, services, and processes.

But the challenge for the bank CEOs is how they will manage operation when they are struggling with talent shortage and technology knowledge gap. The situation has been aggravated by distortion in ethical issues in recent times evidenced by the recent loan scandals in the banks and cyber attack on the central bank. Because, we put less focus on operational risks, so invested less in IT, ignored talents who can lead growth and failed to keep talent IT professionals due to lack of a time-befitting risk management strategy.

So, banks need to adopt an appropriate risk management system not only for their own portfolio but also for that of their clients.

They must devise, nurse and ensure compliance on core credit values to cultivate and drive behavior towards highly efficient and quality credit functions. The core credit values should include, but not be limited to, honesty, trust, sincerity, equilibrium, diligence etc. Keeping in mind the credit values, banks will devise credit appraisal principles which should give an underlining broad guideline of credit risk management.

Is tough regulation enough for banking?

I must say that tough regulation is good for banking but not a panacea for banks to win the battle. In credit market, banks are facing jolt with falling interest rates driven by regulatory push down. But the credit demand still remains at its low level which has piled up a huge amount of investable funds in banks. So, banks are struggling with lower profitability from lower interest income.

The benefits of interest fall are now enjoying by a few customers who belong to the group of a few bad apples responsible for the industry mess turning loan money into bad assets. To recover money, Bangladesh Bank has sharpened rules, but the situation is getting worse as the regulatory knives are not enough sharp to punish the rule

breakers.

With the advent of technologies, the banking industry of Bangladesh has been able to reach more customers over the years, but at the same time, it has also enhanced the risk for customers who often feel reluctant and insecure in opting for such services. So, there is a need for the banks to evaluate their current operating practices.

Over the years, revolutionary changes have been incurred in the regulatory environment of banking sector of Bangladesh. Now, the BB is more closely scrutinizing how banks and financial institutions manage conduct risk and the steps they are taking to create a risk culture and incentive compensation programs that encourage ethical behavior. Now boards of directors of banks are devoting more time to risk management and most boards are addressing key issues.

As the banks now are the prime target of cyber hackers, so regulators are rolling out with tougher rules focusing IT operations to ensure efficient defensive system, improve ethical banking, good governance practice and real time monitoring within organizations. All of these are to save banks from pitfalls. But rules and regulations are not enough for banks, as people needs banking not banks.

Collaboration, innovations and increased supervisions are necessary for banks to win customers' trust and win the battle, I believe.

Continue 13 page

Threats are coming from our society also from far away

Combating money laundering is a dynamic process. The techniques of Money Laundering and Terrorist Financing (ML/TF) are ever evolving process. The criminals who launder money are continuously seeking new ways to achieve their illegal ends. Criminals are also trying to protect themselves from the regulatory system by innovative criminal activities to misuse the system for their purpose. To combat AML, so co-operation among bank managements, regulators and law enforcement agencies is needed.

One of the things we must do immediately is end the incorporation of anonymous shell companies. When investigating the most heinous crimes, it is commonplace for law enforcement to hit a dead-end when encountering a shell. Anonymous shell companies... are one of the primary tools used by bad guys to openly acquire and access nefarious funds. These dubious dealings are not limited to... 'offshore' tropical islands.

With cyber threats becoming more frequent and more advanced, the issue is at the top of the agenda for both governments and business executives. So, Bangladesh

Bank has taken tough stance to combat money laundering and cyber attack. The central bank has tightened regulations, increased supervision and monitoring to combat money laundering.

It's like a battle. It is better for banks to fight it right now, rather than relax and be sorry later.

Where We Stand In the Battle?

AB Bank has taken the AML as the prime agenda. To combat AML/TF and other financial crimes, we are vigilance round the clock. A robust technology platform has been built and installed to monitor all transactions with the view to arrest any suspicious transactions.

Our professionals sit frequently to ensure integrity, trust and responsibility through interactions, vigorous training of officials and sharing knowledge. We are implementing "Know Your Client" rules properly to prevent the crimes in the first place, and regulates and enforces consequences for those who do break the law.

Thank you all. Many thanks for The Bangladesh Express.



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CEO of Social Islami Bank Ltd
**Questions of
integrity are
back now**



SUMMARY OF DIALOGUES

Md. Shafiqur Rahman, a seasoned banker, has a professional banking career spanning near about four decades. In the print media dialogue, the CEO focused the recent fraud incidents in the banking sector and said integrity and honesty are valuable commodities. Without it everything is destabilized. When skimmers stole money from ATM booths of some private commercial banks in Dhaka, some security analysts said that internal security breach at any level helped the skimmers to break the wall. It means, the incident was the outcome of integrity lapses. Technology upgradation or tighter regulation or innovations are necessary to combat thefts and threats in banking, but without integrity, honesty and truthfulness those will not work, he said.

In developed markets, Mr Shafiqur Rahman said, like-minded leaders in the banking and finance industry are now forming group in order to explore the possibility of developing a new ethical foundation for the industry as a whole. So, bankers in Bangladesh can form such group to ensure professional integrity and Association of Bankers Bangladesh (ABB) can take the leading role.

The Moderator's Queue

Despite living in a Big Data era, bank transparencies are meager, feeble, in need of redesign. Internal security breach is blamed for the recent ATM cyber incidents in Bangladesh. So the question has been raised about the integrity of bankers.

Md. Shafiqur Rahman

How can we trust you? How do we know what you say is true? These are not new questions. They are natural and primary questions. Hazrat Isa (puh) faced them too.



When he went to his home town on a teaching visit, he was described as speaking with authority, but they couldn't quite work out where this authority came from. Some took offence.

Authority in the banking markets is based on perception of how solvent a bank is and we now know that they weren't as safe as, well, banks are supposed to be. Hazrat Isa's (puh) authority appeared to be personal and usually teachers carry the authority of their status based on their learning and position. Jesus (puh) was a wandering teacher, who didn't belong to those established groups. He was, therefore, difficult to assess and difficult to pigeonhole. When banking is under threats and thefts, questions of integrity is back.

Internal breach & Leadership

Integrity and honesty are valuable commodities. They are assets that we debase at our peril. It is true of banking, it is true of politics, it is true of religious figures. Being truthful matters. Without it everything is destabilized. So when bankers make statements we need to know that it is based in something, not made up or deceitful.

In Bangladesh, we have observed much integrity lapses in banking sector over the years and this is now a big concern for the banks. We need a way to assess both the leadership culture of banks - and the actions taken to win back trust. These should be an integral part of stress tests and general regulatory duties.

In banking, the question of integrity came back when the fall of Lehman Brothers fell in 2008. The LIBOR rigging scandal saw traders colluding to manipulate the most widely used benchmark for interest rates and there are ongoing probes into collusion in the setting of foreign exchange benchmarks.

Banks have been fined, but little has changed. Integrity is now the hot topic in banking industry globally as security breaches at the organizations are growing faster than external attacks. According to the 2005

Global Security Survey, published by Deloitte Touche Tohmatsu, 35 per cent of respondents said that they had encountered attacks from inside their organization within the last 12 months, up from 14 per cent in 2004. In contrast, only 26 per cent confirmed external attacks, compared to 23 per cent in 2004. Institutions invest in technology, instead of employee training ignoring the impact of professional integrity.

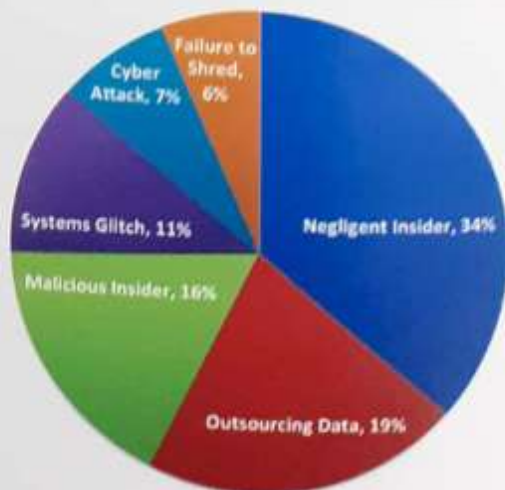
Integrity lapse generates Scams

The recent cyber attack on BB, big loan scams incidents like Hallmark, Bismillah Group, and ATM skimming in some private banks' booth are the results of integrity lapses. Security experts already have hinted that internal breaches might have been major causes for such incidents. A number of bank executives are now facing trials for their misdeeds in loan scams while the final report on BB's cyber heist is yet to be published. Clearly the leadership culture in banks has failed to put integrity into practice in a broad, holistic framework. This is an issue that concerns Transparency International, as we believe banks need to show an active willingness to practice and value integrity.

Numerous banks have policies on anti-corruption and anti-money laundering but their track record on enforcing them is poor: The Financial Action Task Force routinely reports low compliance with its rules and banks have recently paid billions of dollars in settlements for anti-money laundering failings. I think banks should regularly report on what they are doing to boost integrity in decision making throughout all levels of the firm, from hiring and promotion, to whistleblowing systems and compliance with anti-money laundering rules.

Certainly, there are some dishonest elements in banking fraternity who connive and help in such frauds. This leads to a public perception as if bank employees are main culprits.

How Breaches Occur



Source: 2012 study from Ponemon Institute (584 IT professionals whose organisations had been breached)

Potential Exists
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Md. Shafiqur Rahman, Managing Director & CEO of Social Islami Bank Limited formally opened an Ez Banking Booth at Panchdoan Branch of the bank recently.

Internal breach & Leadership

When we talk about cybercrime in the banking sector we tend to focus on external threats, but often organisation insiders are more likely to be the source of cyber attack. Insider threats pose a greater risk than external threats as your employees already know where the company's 'crown jewels' are. These crown jewels could include the assets that drive cash flows, competitive advantage and shareholder value.

Although a majority of data compromises come from external actors, including nation-state groups and cyber-crime gangs, internal employees account for 43 percent of data loss, half of the time these leaks are accidental, a new study from Intel Security indicates. External fraudsters are still the main perpetrators of economic crime for the majority of FS organisations (57% in 2014 and 60% in 2011).

When skimmers stole money from ATM booths of some private commercial banks in Dhaka, some security analysts said that internal security breach at any level helped the skimmers to break the wall. It means, the incident was the outcome of integrity lapses. Attacks against the finance industry are becoming increasingly sophisticated and highly targeted and banks likely to remain top cybercrime targets as emerging channels, such as mobile and online banking, are opening new doors for cybercriminals.

Integrity involves maintaining the consistency, accuracy, and trustworthiness of data over its entire life cycle. The repercussions of a confidential data breach could affect a business' customer loyalty, reputation and competitive advantage. It is the responsibility of company executives and their IT departments to ensure that company data, wherever it resides, remains within the company.

To avert threat, integrity is must

The cybercrime is growing and the methods are constantly evolving. One of the biggest cyber security challenges for business is that there is no patch for careless, greedy or stupid. Even tech-savvy employees can be fooled into allowing attackers access to company networks. To avert such crimes, bankers should focus more on integrity, honesty and ethical banking practices.

We should take the right technology defense as well as set the right people in right places as lack of integrity, honesty and ethical practices generate greed and internal breach. Only then we can avert further threats and thefts in banking.

At the same time, focus should be given to the integrity of board members also. In developed markets, like-minded leaders in the banking and finance industry are now forming group in order to explore the possibility of developing a new ethical foundation for the industry as a whole.

Only then will the industry look beyond mere compliance and establish a foundation of trust, based on personal conviction, upon which the community can once again rely.

So, bankers in Bangladesh can form such group to ensure professional integrity and Association of Bankers Bangladesh (ABB) can take the leading role. At SIBL, we are one step ahead in this struggle as we are dealing Islami shariah based products and services. So they still remain unhurt from such attacks.

As internet is the main vehicle of the cyber crime, SIBL's IT operations are mostly based on intranet, while we maintain 3-tier authentications to ensure data security. But we need to do more giving top priority to integrity, honesty and ethical banking practices.



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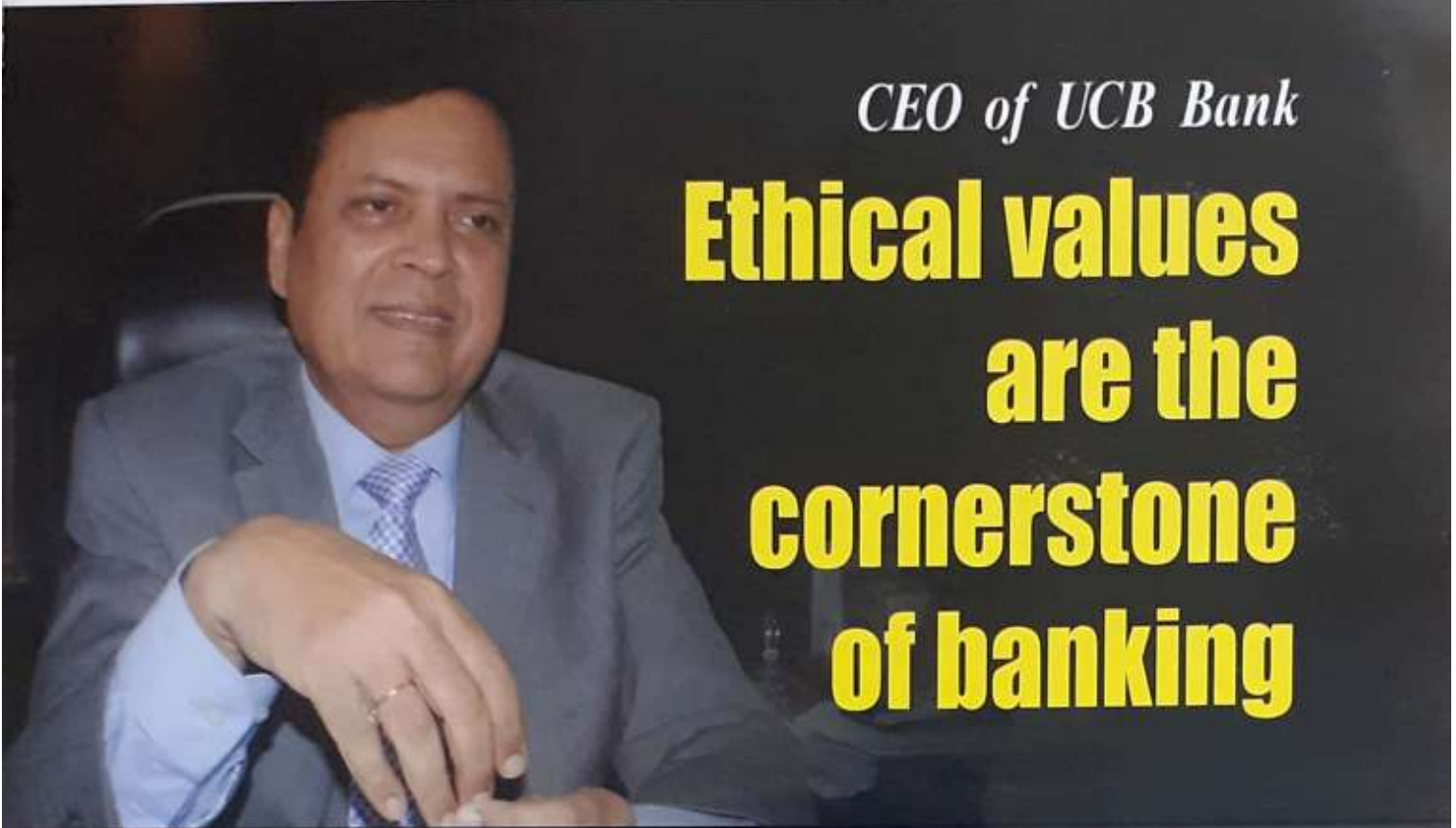
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CEO of UCB Bank

Ethical values are the cornerstone of banking

SUMMARY OF DIALOGUES

Mr. Muhammed Ali is a prominent banker with more than 38 years of rewarding multi-dimensional experience in banking and other fields of management. Global Finance, a US-based prestigious business publication has awarded him as the Best Banker of Bangladesh in 2013. During the dialogue, the CEO said the big threat for all in banking and financial markets is erosion of ethical value in the society. If ethics could play a larger role in the financial services sector, the recent global financial crisis and the big loan scams in Bangladesh might have been averted. What banks need to do to be trustworthy to society and vice versa.

Mr. Muhammad Ali said the concerns for bank CEOs are that customers may not trust banks for a generation and at the same time banks may lose confidence on their high profile customers for their default culture. So, it is high time for banking brands to put their money where their mouth is, innovate their own change in the banking sector and start living by their promises.

Despite the recent success in economic front, some unwanted incidents in financial markets have pushed us to define the destination. The real challenge for the banking community is to formulate a collaborative approach with the society to clean the mess and face the attacks, the CEO said.

The Moderator's Queue

Banks' wrongdoing can seem without end. So, bank ethics is under scrutiny and regulators in developed economies set up standards body. For banks in Bangladesh, what should be the prime focus for regulators & bankers right now?

Muhammed Ali



Incompetence, corruption and greed have been endemic in today's banking world. Millions of households and firms now have to clean up the mess caused by accidental missed payments, bounced cheques and cash shortages. This has tarnished the image of bankers who once were treated as friends of their customers. The question is: Where do banks stand for now?

Cyber threats and money thefts globally are now the top of concerns for the bank CEOs. These two new endemics are not only stealing money from cash vaults through credit frauds and looting cash from ATM booths through skimming but also giving rise to new competitors of bank CEOs who are challenging traditional ways of doing things and operate using more nimble systems and lower overheads.

Fraud in banking is now a billion dollar a year global industry and a way of life for some people and a means to a short-term loan for others. So, it is the right time for banking brands to put their money where their mouth is, innovate their own change in the banking sector and start living by their promises. If they don't, the threat from digitally innovative brands to disrupt, change and lead the market looms large.

In Bangladesh, regulators are reforming rules in response to a series of scandals that many say illustrate a culture of rule-breaking in the country's banking landscape. Regulation will only be truly effective when an ethical practice and moral foundation are widely adopted by individual bankers. If ethics could play a larger role in the financial services sector, the recent global financial crisis and the big loan scams like Hall Mark, Bismillah Group and Basic Bank scandals might have been averted.

In fact, ethics has become increasingly important in the financial services sector particularly in a country like Bangladesh. An ethical environment in the business and financial sectors provides vital support for maximising long-term owner value. Over the time, our economy has become stronger, remained resilient when others of the globe were vulnerable driven by financial meltdown. But some unwanted incidents in capital markets and banking industry have maligned its success and has pushed us to define the destination: Where we will go from here? The question has been raised by the moderator: Where lies the greatest need for proactive risk assessment?

A bad apple spoils the barrel

Financial fraud is a big business for many, contributing to an estimated 20 billion USD in direct losses to the global economy annually. Industry experts suspect that this figure is actually much higher, as banks cannot accurately identify and measure losses due to fraud. All it takes is one bad apple to spoil the barrel, and that's because the one apple that's gone bad gives off ethylene, speeding the ripening of all the other apples in the same barrel as the bad apple.

In recent years, we have seen the intensity of the events a bit clearer and the big actors are now under the trial. Wall Street billionaire Raj Rajaratnam was convicted on five counts of conspiracy and nine counts of securities fraud in 2011, and is serving an 11 year sentence. Banks are facing more challenges for a few bad apples.

A strong cultural revolution is the demand of time to clean the mess from our society. There's an obvious commercial imperative for industry leaders to address cultural issues. Not least the potential, as we've already seen in recent years, for investor revolts over misconduct issues, which themselves follow successive voting seasons that have been punctuated by rebellions.

In the banking industry, the big threat is that customers won't trust banks for a generation and at the same time banks would lose confidence on their high profile customers for their default culture. What banks need to do to be trustworthy is one thing, but what society then does to trust banks is another. Over the past five years, banks have instituted complex control systems to detect and punish rogue behavior — where employees cheat their employers or customers, or violate clearly defined rules.

In the recent times, banks have made great strides. Increased levels of surveillance, with appropriate governance and controls such as mandatory signoffs, have enhanced their abilities to identify and manage this type of misconduct. But this is not enough as more threats are coming from different fronts. The danger is that cyber criminals are undoubtedly sharing their knowledge and tools while banks are yet to break down their traditional barriers between competitors.

When a big bank will be attacked, then other banks will also face the same. We have to fight unitedly with a collaborative approach to break down the barriers that have existed culturally and technically.

The real challenge for the banking community is to formulate a collaborative approach with the society to clean the mess and face the attacks. Intelligence sharing has become a core segment of Swift's customer security programme. In a letter to members in May, it pledged to send alerts of any cases of malware or other indicators of compromise as soon as possible.



CEO of Rupali Bank
**TBML is a safe
route for
criminals**

SUMMARY OF DIALOGUES

Md. Ataur Rahman Prodhan, the former CEO of Probashi Kallayan Bank recently took over the charge of Managing Director and CEO of the state run Rupali Bank Limited with his long banking career in the country's largest commercial bank-Sonali Bank.

With his close observations, Mr. Rahman hit the print media dialogue with a new debate over the old issues now being overlooked in many instances. The great threat in our banking is mounting bad debt that forces lenders to raise their loan-loss provisions, sending costs up and profits down. The existing regulations regarding LCs are not enough to recover money from a few bad apples, which has already piled up too many bad assets in the banks cash vaults.

The CEO sees the prime focus for the banks should be money laundering to combat terror financing which is mostly done by trade financing process and laundering from developing countries to developed regions. Trade base money laundering (TBML) is now a safer route for criminals to finance terrorists. A unique technology platform for spot price of commodity prices and third party checking system for price quotations can reduce the risks from TBML, Mr. Rahman Prodhan said.

The Moderator's Queue

The recent Gulshan terror attack has rangd the alarming bell for the banking to focus more on money laundering and financing to terrorist. The big question is: Are we responding slowly when tomorrow is already too late in the evolving banking world?

Md. Ataur Rahman Prodhan

When terrorism, fines and money laundering- are now the three big concerns for banks globally and regulators are coming up with double-edged sword to combat threats and thefts coming from many fronts, then senior bankers are at a unique print media platform of The Bangladesh Express through the Annual Print Media Dialogue of Bank CEOs on the issues. The real challenge for the bankers is to show by the deeds, not just the words as we belong to the same world as the rest of us.

The banking industry in Bangladesh has flourished over the years, making double-digit profit percentages, sustaining growth and surviving cut-throat competition while providing attractive returns to shareholders. But the great threat in our banking is mounting bad debt that forces lenders to raise their loan-loss provisions, sending costs up and profits down. And it is coming from our home and recently has been aggravated and forcing banks to go for force lending.

The existing regulations regarding LCs are not enough to recover money from a few bad apples, which has already piled up too many bad assets in the banks cash vaults. Rather some lapses in rules encourage defaulters to pay back money to the banks and force the lenders to give them loans.

So, many questions in people's minds: Are we heading toward a bleak future? Where lies the greatest need for proactive risk assessment?

In fact, money laundering and measures to combat it have become the focus of an intense international effort as it damages financial institutions, reduces productivity in the economy's real sector by encouraging crime and corruption, and can distort the economy's external sector.

But one thing still remains out of proper focus- Trade base money laundering (TBML). When banks and regulations have put more focus on cyber threats and credit frauds, then Trade base money laundering (TBML) has become a safer route for criminals to finance terrorists. TBML is growing silently and hitting our economy severely.

We should focus TBML more

The big threat is still looming largely that Trade base money laundering (TBML) is rapidly growing globally and terrorist criminals have founded it a safe route for laundering money. A few years ago, American customs investigators uncovered a scheme in which a Colombian cartel used proceeds from drug sales to buy stuffed animals in Los Angeles. By exporting them to Colombia, it was able to bring its ill-gotten gains home, convert them to pesos and get them into the banking system.

This is an example of "trade-based money laundering",

the misuse of commerce to get money across borders. Sometimes the aim is to evade taxes, duties or capital controls; often it is to get dirty money into the banking system.

According to the International Narcotics Control Strategy Report, globally hundreds of billions of dollars are laundered annually by way of TBML. Bangladesh is not out of its claws. A recent NBR report published in a daily said nearly 80 per cent of the money laundering conducted from Bangladesh is done under the cover of export-import business.

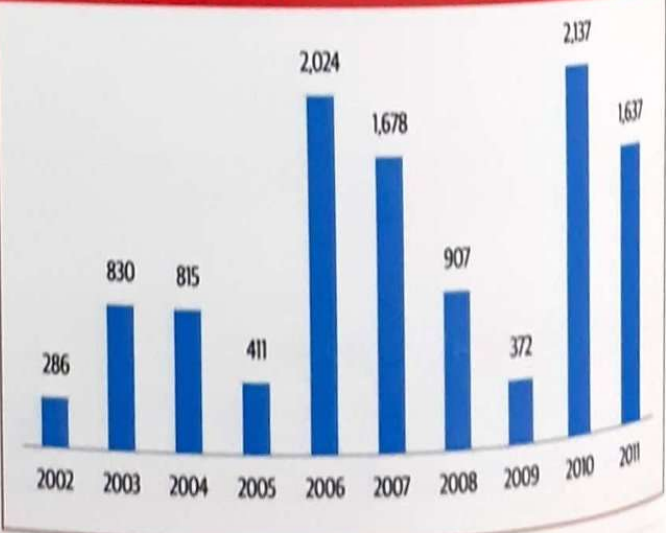
A lot of policy lapses still allow criminals to drain out a huge amount of money through trade based money laundering. So, regulators in developed economies have started rolling out while Bangladesh is still lagging far behind in the race.

International efforts to stamp out money laundering have targeted banks and money-transmitters, and the smuggling of bulk cash. But as the front door closes, the back door has been left open. Trade is "the next frontier in international money-laundering enforcement. Regulators across the globe are stepping up with sharpened rules, various guidelines and legal acts.

In case of TBML, regulation promulgated by the Bangladesh Bank (BB) is enough but many banking experts say, some lapses are still a persistent problem for the banks. Taking advantages of volatility in commodity markets, criminals can send money to other countries through price manipulation as supervisory authority has no such tools to check commodity prices.

A unique technology platform for spot price of commodity prices and third party checking system for price quotations can reduce the risks from TBML. Not only regulation, an effective interaction and co-ordination among the parties are necessary to combat money laundering. A real time monitoring system can increase co-operation among them and combat trade base money laundering.

TRADE MISINVOICING OUTFLOWS FROM BANGLADESH IN MILLION USD





CEO of Sonali Bank

Criminals will not spare banks, if they ignore talents

SUMMARY OF DIALOGUES

Md. Obayed Ullah Al Masud, the Managing Director and CEO of Sonali Bank, the largest commercial bank in Bangladesh sees the big threat for banks is risk management, while a new epidemic- cyber risk has made the risk management tasks more difficult for banks globally which is "a clear and present danger" to banks operating locally. Most banks have deployed technology platforms, but a few banks appointed adequate number of quality IT professionals.

The banking sector is facing acute shortage of quality IT professionals driven by inappropriate recruitment policy that discourages skilled professionals to work in banks. So, it is now the high time for banks to redesign its recruitment strategy and focus more on IT security issues and if necessary, decide to hire good hackers to remain safe from bad hackers.

Md. Obayed Ullah Al Masud served the Karmasangsthan Bank as its managing director prior to join his new assignment in Sonali Bank last month. In his dialogue, he said the banks in Bangladesh faced big attacks in credit front in the past by our people for absentee of a sound credit risk management culture. We have seen a lot of rule breaking incidents and lapses in risk management and strong supervision.

The Moderator's Queue

Banks are facing threats from various fronts even though a lot of work have been done in responding to immediate pressure. A question has been raised: Are the banks prepared to prevent any attack from cyber criminals or loan frauds?

Md Obayed Ullah Al Masud



When criminality, greed, fraud and price manipulation are increasingly concerns of banks and FIs, then this print media dialogue focusing these crucial issues is, no doubt, a unique initiative for the banking industry. So open discussions, interactions with regulators and interpretations by financial journalists through news media would help us all to mitigate risks and find the right strategy to win the battle against thefts and

threats in banking.

A new wave of scandals and serious misdeeds have stunned the global financial markets in recent years and the big threats are now coming not only from technology front but also from bankers who are living with us but frauds, greedy and dishonest in nature. The bright examples are the LIBOR scandals in UK and market manipulation scams in Wall Street. And this has prompted banking regulators to become brutal and coming with eye-popping fines to punish banks.

In Bangladesh, after some incidents, regulators are coming up with more stringent measures and Bangladesh Bank is sharpening its regulatory knives. So, banks must prepare themselves to face the challenges and avoid fines. The real challenge for all would be execution of the regulatory measures by the banks and regular supervision by the central bank. The recent incidents of scandals and failures in our banking industry tell us this truth, he said.

Top challenge for banks is risk management

The big threat for banks is coming from risk management failures, while a new epidemic- cyber attack has made the risk management tasks more difficult, which I see as "a clear and present danger" to banks. By 2025, McKinsey in its report on future banking risk predicted that risk functions in banks will likely need to be fundamentally different than they are today.

As hard as it may be to believe, the next ten years in risk management may be subject to more transformation than the last decade. And unless banks start to act now properly and prepare for these longer-term changes, they may be overwhelmed by the new requirements and demands they will face. Flawed or shortsighted credit risk management practices, however, are a leading cause of bank failure, which results in investment losses, losses to the insurance fund, business disruption, and reduced service to the community.

In recent years, we have seen a lot of rule breaking incidents and lapses in risk management and regulatory supervision in our banking industry that helped the criminals to siphon away thousands of crore of taka from our accounts. So, the new regulatory landscape is placing demands on banks and financial institutions in corporate governance, capital adequacy, stress tests, operational risk, technology data and information systems, and risk culture. As institutions prepare to comply, they will need the flexibility, in both their business models and compliance programs.

Meanwhile, banks have made progress in many areas of risk management. Boards of directors are devoting more time to risk management and most boards are addressing key issues such as approving the risk appetite statement and aligning corporate strategy with the organization's risk profile. Having a chief risk officer position and an enterprise risk management program is becoming prevailing practice.

But some business risks are still looming largely and hitting the banking industry mostly driven by fierce competition and negative impact of media report on the credit scandals. This may create a new jolt in the industry in the coming days where too many banks are playing in a too small field for a small cake. For example, some banks disbursed nearly 80 per cent of their loans through their AD branches which is risky for the banks. The reason is too much cautiousness and fear that has been made by too much talk on the loan scams rather than too less focus on operational risks.

We should focus on a balanced growth of credit and loans to ensure the balanced growth of economic fronts. Otherwise, many banks may face unwanted consequences like global banks during the crisis.

Threat from anonymous hackers is enormous

The big challenge for banks is that technology is changing the banking from the outside, while in Bangladesh, the banking industry is facing acute shortage of quality IT professionals driven by inappropriate recruitment policy that discourages skilled professionals to work in banks.

As the world becomes more and more connected to the Internet through computers, anonymous cybercriminals are looking for ways to exploit people and companies are becoming more 'fearless' in hitting the 'big fishes'. So, cyber risk has emerged as the most common operational risk concern and "a clear and present danger" to banks. The competitive landscape has intensified in recent days as the threat is unlikely to go away soon.

Over the years, the big banks continued investing in modernising their infrastructure as well as focus on hiring skilled professionals who can deliver services through secured digital channels. Within the next 3-5

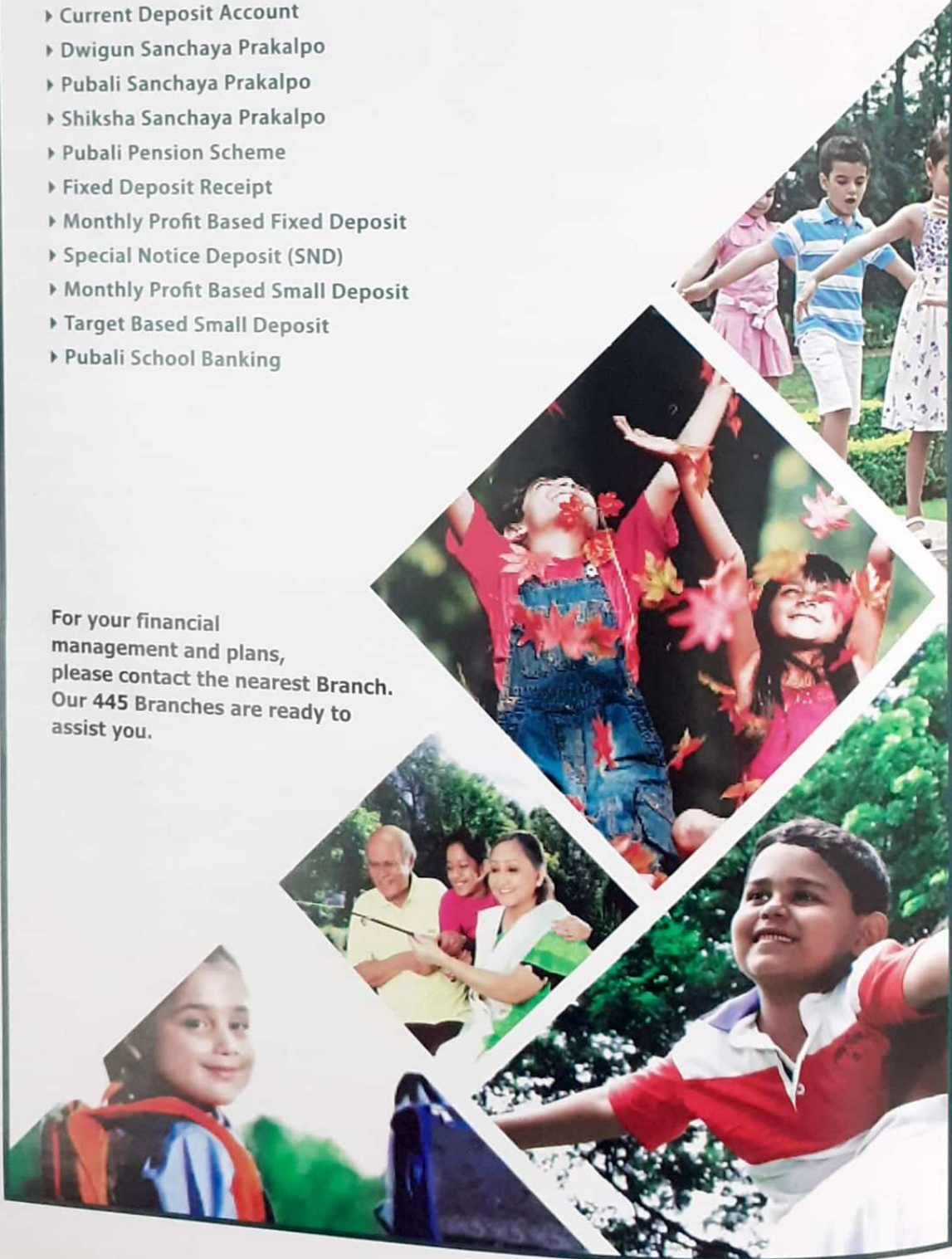


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- ▶ Pubali Sanchaya Prkalpo
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- ▶ Special Notice Deposit (SND)
- ▶ Monthly Profit Based Small Deposit
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CEO of Standard Bank **Tough regulation urgent to combat banking threats**

SUMMARY OF DIALOGUES

Md. Nazmus Salehin, Managing Director of Standard Bank is a top notch public sector banker of the country and retired from his service last month after 35 years of career in different banks. During the dialogue, the CEO said the challenge for bank CEOs is to develop comprehensive fraud risk management controls through implementing KYC, KYCC and CDD that will not only prevent frauds but detect them as soon as they occur and respond to them. Standard Bank has taken the challenge and put KYC as the prime task. Our board members are extending all out cooperation to implement these regulatory measures. And this helps us to sleep sound.

The CEO said cyber-crime and identity theft are dominating the global banking fraud landscape. So regulators around the world are waking up and propose stricter banking rules. Bangladesh Bank has already asked banks to focus more on KYC checks and customer data integration.

The Moderator's Queue

The debate has been ignited over the tougher regulations regarding KYC rules and the question has been raised: Is tough regulation needed to win the battle against money laundering and terrorist financing?

Md. Nazmus Salehin

Ask any banker - What's their biggest defence against internal frauds? And he will say, with almost a sense of pride, it is their maker-checker controls.

While the maker inputs the transaction, a checker verifies the data and then authorizes the transaction. So, one individual cannot perpetrate the fraud entirely on his own and would need a maker partner in crime. This process independence, therefore, is considered to be the ultimate panacea for internal fraud threats. But the process failed to stop big scandal in wall Street, Hall Mark and Bismillah loan scams in Bangladesh and the latest BB heist, now the hot topic in global financial markets.

In today's context when theft sends tremble around the world among banks and large corporations that keep big balances, maker-checker control is not enough to prevent financial crimes. I will say the KYC and CDD are the ultimate solution.

But the success depends on the integrity of bankers and leadership role inside the institutions. So, tough regulation, may it be it has double edged swords, should come in force. I think, tougher regulation like KYC is urgent to combat threats and thefts in banking.

In banking world, regulatory pressures, risk management and technological advances are creating a new and challenging environment which risks driving out some of today's leaders. Tighter compliance regulations have challenged financial institutions in a variety of ways. New topics continue to emerge, such as conduct risk, next-generation Bank Secrecy Act and Anti-Money Laundering (BSA/AML) risk, risk culture, and third- and fourth-party (that is, subcontractors) risk, among others.

The good news is that this brings some welcome clarity to the area. The bad news is that ignoring the issue is no longer an option. The guidelines go as far as saying that financial institutions who have chosen not to use social media cannot ignore the issue; they should still consider the potential for risks arising from negative comments and complaints from within the many forms of social media.

We are not alone in getting funds in and out of Bangladesh because as commercial banks, we have to operate with internationally regulated financial institutions, and if we are found to be careless we could lose business and our license.

So, the BB needs to look further into the informal market of money exchange, whether that be through diamonds, gold or currency transactions, while also closely monitoring local specialised banks and microfinance institutions.

The challenge is implementing KYC properly

Today, cyber-crime and identity theft are dominating the global banking fraud landscape. So regulators around the world are waking up and propose stricter banking rules to cover cyber, fraud risks. Bangladesh Bank is also sharpening knives and has already asked banks to focus more on KYC checks and customer data integration.

The good news is that this brings some welcome clarity to the area. The bad news is that ignoring the regulation is no longer an option as it will punish the banks severely. The BB has already fined some banks for ignoring KYC rules. The Reserve Bank of India (RBI) has penalised 13 banks for violating Know Your Customer (KYC) norms. The central bank has also advised eight banks to put in place measures to ensure strict compliance of KYC requirements and Foreign Exchange Management Act (FEMA) provisions.

I think the BB's recent tough stance will enhance market discipline and supervision. This will not only promote stability of the financial system, but also help the central bank to discharge its core mandate of maintaining price stability. The challenge for bank CEOs is to develop comprehensive fraud risk management controls through implementing KYC, KYCC and CDD that will not only prevent frauds but detect them as soon as they occur and respond to them. So, KYC policies are becoming more and more popular throughout the entire financial industry.

Tougher actions needed to combat AML

Money laundering is a way of covering criminal tracks. For the economy in general, money laundering weakens the financial landscape, which is one of the strongest affecters of the economy across the globe. By harming financial institutions, money laundering directly causes bad economic trends. The AML/CFT regulations introduced by the regulators provide a system of risk-based approach under which customers would be profiled as per risk involved.

In some countries, regulators have tightened the regulations and developed a framework of scenario-based ranking of customers to detect abnormal behaviour or transactions during the course of relationship. Recently, the BB has tightened some rules and this would ensure clean and transparent banking transactions on the one hand and enable the country to meet international standards on the other.

Mobile Money Service providers are now emerging as big market players in payment business. Time has come to regulate their money. But the question is: how their KYC would be monitored? As the mobile banking has already put their strong holds in our economy, we cannot think to over through them. A separate regulatory body can mitigate the risks and is the demand of the time, I think.



CEO OF SBAC Bank **Mounting bad loans is big threat in banking**

SUMMARY OF DIALOGUES

Md. Rafiqul Islam, has been re-appointed as Managing Director and CEO of South Bangla Agriculture & Commerce (SBAC) Bank Limited for another term recently. He also had served Al-Arafa Islami Bank Limited after starting his career in Pubali Bank Limited in 1977. Addressing the dialogue, the CEO said bad debts have been regularly trotted out the banks as a big risk threatening bank profitability.

So regulators are not sitting idle, coming with sharpen regulatory tools to fine banks and strengthen risk management practices. Lending to other financial institutions and large companies, and holding equities are the areas mostly to be affected.

Falling credit quality has been well telegraphed in Bangladesh banking circles, so it was little surprise that as results rolled out recently bad debt blows have landed right on the bottom line. So, banks must to follow the rules in their risk management practices.

But tougher regulation would be successful when it comes not only to punish banks but also save bankers from any pitfalls. A strong social movement is necessary to combat the threat from rule braking culture and bad loan creators, the CEO said.

The Moderator's Queue

After some big credit frauds credit risk management has come under the scrutiny of all involved in banking. The questions have been raised: What areas are to be highlighted to win the battle against loan frauds?

Today, the banking industry is moving through a host of risks- some are new some are old.

New threats are coming from many corners but traditional credit risks still remains a big threat for banks. This risk coupled with continued concern on technology risk, as the moderator of the dialogue mentioned in his key note, is forcing banks to impose tougher regulations which are now the topic of discussions in global financial hubs. Bangladesh banking sector is no far away from this queue.

Falling credit quality has been well telegraphed in Bangladesh banking circles, so it was little surprise that as results rolled out recently bad debt blows have landed right on the bottom line. The Financial Stability Report released by Bangladesh Bank (BB) said the bad loans to gross NPL ratio increased in Calendar Year 15 despite the lower gross NPL ratio.

The recovery of NPL remained a prime concern for the banking industry. The central bank report also focused the adverse effect on banks' balance sheets arising from high amounts of nonperforming loans, which is now a major concern for the banking system.

So, I see the rise of bad loans is the big threat for banking growth in Bangladesh even more than others.

Along with regulatory demands to hold more capital and the squeeze on margins, bad debts have been regularly trotted out the banks as a big risk threatening bank profitability. So regulators are not sitting idle, coming with sharpen regulatory tools to fine banks and strengthen risk management practices.

In Bangladesh, BB has also started initiatives to monitor the NPL scenarios of large groups and non-financial corporations and is expecting to improve the NPL scenario of the banking sector. But how much the latest initiatives will bring the good result in near term it is very difficult to predict now.

So the question has been raised: To minimise risks, what areas are to be highlighted? I think it should be the rule breaking culture where both bankers and supervisory authorities cannot ignore their responsibilities.

Risk management rules should be tougher

Regulation is not only the panacea to cure the disease and remove the pimple in banking. But tougher rules are needed for risk management. Because the rule breaking culture is deep rooted in the heart of banking, the laser-focused should be on the bottom line.

Credit risk has always been a primary concern for financial services institutions but has not always been very effectively managed. The financial crisis that started in 2007 exposed the weaknesses of existing risk manage-

ment systems among financial services institutions. There were shortcomings in the way many different firms of all sizes and regions were managing their credit risk. But still banks should learn more about risk practice.

Bangladesh Bank has already issued six core risk guidelines for FIs in line with internationally accepted best risk management principles and practices.

So, banks should follow the rules in their risk management practices. But one thing we should remember that tougher regulation would be successful when it comes not only to punish banks but also save bankers from any pitfalls.

A strong social movement is necessary to combat the threat from rule breaking culture and bad loan creators. From their part, banks should diversify their businesses as diversification of business will help banks to minimize their risks and new research makes it increasingly clear that companies with more diverse workforces perform better financially.

Collaboration with businesses and innovation in operations, I believe, would help banks to combat any threats and threats now looming largely. But here, banks need skilled workforces. So banks should nourish talents who in the coming days will lead business and adopt technology which will drive the banking.

Evolving risks management strategy

How to achieve full compliance and protect the bank from risks? This needs to be an integrative part of the thinking process at the beginning, not an afterthought once businesses. In the coming days, changing customer expectations and evolving technology are expected to change the banking with an entirely different profile. By then, widespread technology use is likely to be the norm for customers.

But technology is not coming alone, so new risks are emerging when customer expectations are rising and regulation are being sharpened more and more.

So, banks should learn more about risk practice and more interactions and collaborations is urgent to win the battle. I think, banks can take some bold initiatives to deliver short-term results, while preparing for the coming changes.

To combat new credit frauds, the risk-management function will need to build a perspective on risks with clear guidelines how to detect and mitigate them. And it will need the flexibility to adapt its operating models and a talent pool with ethical background.

Here, regulators as well as the policy makers should come forward with an approach to support this pool of talents by necessary law and regulation to ensure their jobs in banking.



CEO of ICB Islami Bank

Too much tight regulations hit SME growth

SUMMARY OF DIALOGUES

Mr. Muhammad Shafiq Bin Abdullah Joined the ICB Islamic Bank on November 2013 as the Managing Director and CEO with his advanced banking knowledge, diverse skills and experience in developing innovative solutions and 22 years of banking experience in leading banks in Malaysia. The Malaysian banker has served the regional ASEAN countries during his stint in CIMB prior to joining ICBIBL. During the Annual Print Media dialogue, he focused on the recent regulatory debates on de-risking following the tightening regulations introduced by FATF to combat the financing to terrorists.

We always take actions after the incidents. We never think about the protection. Ethics has become increasingly important in the financial services sector on the grounds that the aim of business activities in general and financial services in particular is the creation of value for the consumer, the CEO said.

The Moderator's Queue

The BB has asked banks to focus on KYC checks and customer data integration. But it appears that most banks are still investing in this area and are yet to see results. Tougher regulations needed to combat money laundering, but bank CEOs in developing countries have raised the question regarding tougher KYC rules.

Muhammad Shafiq Bin Abdullah

At first I would like to express my gratitude to The Bangladesh Express for initiating a unique dialogue of bank CEOs on a very crucial industry topic- threats and thefts- which is a growing headache for bankers globally. Criminality and technology risks are becoming increasingly concerns of banks and FIs in Bangladesh as well as in Malaysia and also in other countries across the world.



The growing concern for all is that financial criminals will commit a fraud somewhere in the globe by the time I finish this interview as experts already have found that financial fraud happens every 15 seconds. As fraud threats are evolving, so the regulatory framework is continuously evolving. This has created a very tough situation for banks when margin pressure is a big concern.

The successful cyber attack on the Bangladesh central bank that netted hackers \$81m has significance well beyond the financial loss incurred. The criminals' ability to exploit the so called trusted Swift network to send fraudulent transaction messages prompted the bankers globally to rethink the issues of efficiency level of bank executives and the recent loan scandals the issues on ethical banking. The question has been raised by the moderator of the dialogue: Is tough regulation good for the growth?

I think, the answer is not easy for us as we always take actions after the incidents. We never think about the protection. Ethics has become increasingly important in the financial services sector on the grounds that the aim of business activities in general and financial services in particular is the creation of value for the consumer.

The big concern is cyber attack

In today's banking world, the big concern for banks is cyber attack. More than one million incidents of card scams, online and telephone banking and check frauds occurred in the UK in the first six months of the year, according to Financial Fraud Action UK., an industry body funded by banks. That's an increase of 53% over the same period of last year, meaning one such crime is now committed every 15 seconds, the FFA said. Banks are getting more sophisticated in their fight against criminals - last year, they managed to stop \$7 in \$10 of the attempted fraud transactions from happening, the body said. Last year, losses from this kind of fraud in the U.K. totaled 755 million pounds (\$980 million).

But there is a flip side to their success. "As the banks' systems get more advanced, fraudsters turn their attention elsewhere and sadly this often means tricking people out of their personal details and money. As the world becomes more and more connected to the Internet through computers, cybercriminals are looking for ways to exploit people and companies are becoming more 'fearless' in hitting the 'big fishes. In this war game, banks in Bangladesh and also in Malaysia are vulnerable and under the threat of cyber security risks.

Cyber experts have already warned that the security measures in banks in Bangladesh are inadequate and inefficient to face the growing sophisticated attacks of new generation hackers. The IT security issues remained the sideline of the agendas of banks and financial institutions, while most of them dependent the outsiders. I think, banks in Bangladesh should develop their own defensive system with their own IT professionals who are intelligent, honest and efficient and have proved their efficiency in many world class organizations. For example, ICB Islamic Bank of Bangladesh. We have introduced a unique SMS messaging system in SWIFT payment procedures which has reduced risks significantly, I hope.

Over the years, I have realized that hacking is more of a thrill to the hackers who always like to be a Grey Hat hacker and like to help the admin of site by reporting the vulnerability. On a global scale, what is happening right now is most of the attackers are fearless, and they are going for targets that they never did in the past. It's now important for every organizations, every companies to begin to further their progression on cyberdefense.

Is tougher regulation good for banking?

When banks are finding themselves difficult to survive in the wake of rising scrutiny and higher compliances cost, some new tighter regulations have been emerged that have made their situation more difficult to survive. Strict rules are changing the way banks do business and now a big concern for bank CEOs. Meanwhile, the question has been raised by many: Is tougher regulation good for banking?

Increasingly strict banking regulations are changing how banks do business. Tighter regulation is designed to improve standards, but too much regulation has already created bank brain drain in many countries. Too many businesses and individuals are being denied access to financial services as a result of tighten "Know Your Customer" (KYC) guidelines.

The argument is that the KYC rules set by the intergovernmental Financial Action Taskforce Authority have prevented poorer communities from accessing bank accounts for years and damaging developing economies' opportunity to grow. Money transmitters, charities and fintech companies are among the sectors particularly



CEO of Pubali Bank

If banks ignore rules, definitely they will fall

SUMMARY OF DIALOGUES

Mr. M A Halim Chowdhury, Managing Director and CEO of Pubali Bank Limited, the largest private commercial bank with branches all over in Bangladesh. It provides mass banking services to the customers through its branch network all over the country.

In this dialogue, the CEO said the cyber threat is the big threat for banking as the world becomes more and more connected to the internet through computers. Hackers are more intelligent than many other system installers. So, regulators are coming with sharpened rules and guidelines to help banks to remain safe from the cyber attacks.

Banks in Bangladesh are within the risks of cyber attack as banks paid less focus on this issue in the past. To remain safe, banks should build their own defensive system through their own team. Banks cannot ignore that they are the custodian of depositors, so they should welcome regulations tougher or softer to safeguard depositors' money and ensure returns for their shareholders and investors, the CEO said.

The Moderator's Queue

Globally digital is universally embraced by financial institutions but inconsistently executed. In Bangladesh, the recent incidents of cyber attacks have alerted both bankers and regulators to focus the technological risks issues and increase investment in IT. The question has been raised: Are banks just paying lip service to digital transformation?

M A Halim Chowdhury

We bank CEOs are in a unique print media dialogue on banking issues at a time when crime has become global, and the financial aspects of crime are more complex driven by evolving in technology and globalization of financial services industry.



Naturally the digital banking transformation will lead the dialogues as it has changed the banking landscape allowing outside disruptors to drive a dagger through the heart of banks.

More malware is being launched every day than ever before: 230,000 new malware samples/day according to the latest statistics. Naturally, more resources are being deployed to counter cyber attacks. And don't think that all that money comes from hackers targeting corporations, banks or wealthy celebrities. Individual users like you and me are also targets.

As the world becomes more and more connected to the Internet through computers, cybercriminals are looking for ways to exploit people and becoming more 'fearless' targeting big banks. The big concern for us is how banks can defend against it and what the regulators can do. Definitely, all banks and credit unions need to prepare themselves to face the challenges and regulations will help them to keep safe the industry from attacks.

Threat is bright, defense is bleak

Globally, the cyber security industry is growing, more specialists join the ranks. The estimated annual cost for

cyber crime committed globally is now nearly 100 billion dollars. So, banks invest more time and money defending against the threats. A lot of discussions over the cyber security issue have been made in the global financial hubs. But the situation remained as it was. The threat scene is bright but the defence landscape is bleak.

A lot of promised were made by banks and regulators over the years but investment remains at the bottom level. In the past, we have put more focus on security issues after the recent BB heist. A number of international IT security experts have already warned that banks in Bangladesh are vulnerable to cyber attacks as the issue remained out of proper focus. This has been also evidenced by a recent BIBM study that says banks face up to 300 malicious software attacks a day, 60 per cent of them by the local hackers.

The reasons are, the study reveals, poor knowledge and insufficient investment in cyber security. While 70 per cent banks have no separate and independent IT security and risks management division, many banks have installed costly software in an "ineffective way".

About 60 per cent banks come to know from external sources, the study says, that they have been attacked. The average time to contain a cyber attack has also increased. It took 31 days in 2014, 27 days in 2013. It takes an average 164 days just to get to know that your security has been breached.

The central banks formulated a pragmatic IT guidelines and rules for banks to address the cyber attack. But those remained in paper. But I think, the security policy of Bangladesh Bank, the central bank of the country is quite adequate and efficient to face the growing sophisticated attacks of new generation hackers.

Hackers are more intelligent than many other system installers so to protect banks from the hacking, it is imperative to install systems by the genuine and skilled companies.



Pubali Bank has Built a robust Data Center.

A lot of issues are still out of focus. When we talk about cybercrime in the banking sector, for example, we tend to focus on external threats, but often organisation insiders are more likely to be the source of cyber attack. Many security experts say that insider threats still pose a greater risk than external threats as employees already know where the company's 'crown jewels' are. These crown jewels could include the assets that drive cash flows, competitive advantage and shareholder value.

So, bank CEOs might hardly be surprised in the days ahead that regulators have rewritten the rule-book and then thrown it at them.

Is tough regulation good for banking?

A significant number of cyber attacks were made in the banking industry of Bangladesh over the years, but no one paid heed to the rules and regulations. After the recent attack on SWIFT, however, Bangladesh Bank has come with tighter regulations designed to improve IT standards and security and stringent supervision. So, the financial markets today are more regulated than ever.

Tougher regulation is good for bank as criminals are fearless. The existing rules promulgated by Bangladesh, however, are industry-friendly, predictable, transparent and consistent.

If banks follow the BB's guidelines strictly, they will never fall in perils. But increased oversight is necessary to restore and enhance trust. At the same time, banks must come with more investment to fight remove any gap available in ensuring the information security. Banks that are not investing in this direction today certainly will be behind the curve very soon.

Where we stand now

At Pubali Bank, we have taken the cyber issue as a prime agenda for us. But still we have to do more to survive. Pubali Bank has developed a robust IT system to protect cyber threats and a unique tool to monitor all banking activities from branches to regional offices to the head offices in real time. The system, developed by a team of local experts has reduced risks significantly and under constantly being upgraded with the changing cyber landscape. But our effort is not end here.

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Too much tight regulations hit SME growth

affected by this and now some banks are withdrawing from providing correspondent banking services.

Meanwhile, KYCC has been emerged as a much more intensive and costly process for banks and financial institutions of developing world. Under the KYC rules, banks are accountable for knowing not only their customers but also their customers' customers (Know Your Customers' Customers, or KYCC) as well. But it has developed lack of trust between financial institutions and their perceived "high risk" clients related to the implementation of AML/CFT controls. It is also hurting the bank's financial inclusion drives.

The goals of financial inclusion, and anti-money laundering and countering the financing of terrorism (AML/CFT), are not inherently in conflicted. But too much tough AML/CFT measures are negatively affect access to financial services and lead to adverse humanitarian and security implications. So, many bankers have recently raised the appeal: Tougher regulations needed to combat money laundering. Get tough on money laundering...but not too tough, please.

Most banks in Bangladesh are focusing more SMEs for their survival, but stricter KYC process discourages our customers to open accounts in banks. This has already put serious negative impact on SME business. In this case, I think, regulations should be easier but careful. Regulators need to make sure that they do not take the

"great re-regulation" practices too far.

Small traders are very well known to us, they just want banking, not banks. If we impose them tighter rules and ask them to submit too many documents, they will put their money in their home boxes and leave our branches.

Where we stand now

At ICB Islami Bank, we deal mostly with SMEs and most of our customers are middle income group people. Despite some odds, we are implementing KYC implementation practices carefully and seriously to avoid frauds. To make the process effective, we follow "the right man in the right place" policy.

To combat cyber attacks, we have upgraded our IT security systems and our process does not end here. Recently, we have upgraded our SWIFT outward transactions system with a security tool- Instant Auto SMS Notification-developed locally. After any transaction made through the system, this tool sends instant message of transaction to mobile phones of our assigned senior management officials and also to respective email accounts. However, the software is now under testing phase.

After office hour, our SWIFT system does not allow any outward SWIFT transactions. For any sort of amount transactions, bank customers are getting instant SMS alert notification. We also check black listed customers to minimize risks.

SME BANKING

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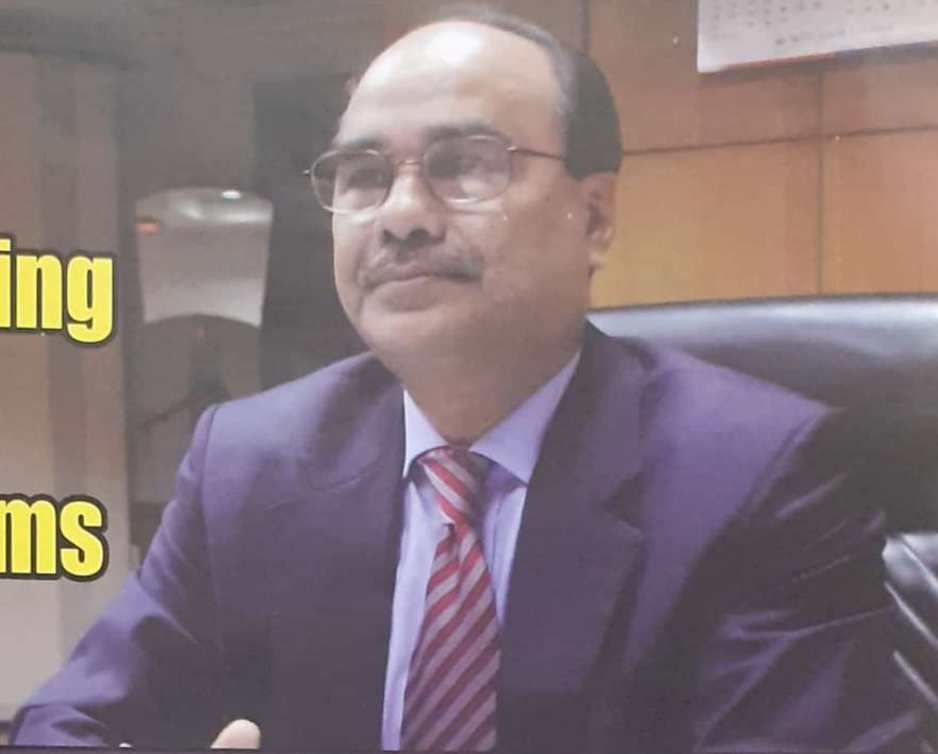


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CEO of NCC Bank

Trap of inflating profit is the cause of scams



SUMMARY OF DIALOGUES

Mr. Golam Hafiz Ahmed, Managing Director and CEO of NCC started his banking career as a senior officer with Pubali Bank Limited in 1983 and also worked Banque Indosuez and Dhaka Bank Limited. In the dialogue, the CEO shed light on some recent questions regarding bankers' integrity and said some recent incidents of banking scandals have shattered the trust and confidence of the stakeholders immensely.

The bankers are being accused of for all the mishaps worldwide on a wholesale manner thereby putting a veil over other determinants of the total picture. I think too much solely blaming the bankers would be like shouting at the clouds because it's raining.

To restore confidence, the CEO suggests that setting ambitious goals for profit or any other likely items should be discouraged so that it can navigate in its normal course. Preventive measures are to be designed to arrest any undue or unethical attempts to undermine the sector, which was just a few years back a prestigious and noble profession to aspire for.

Banks internal control mechanism must be strengthened to be free of such occurrences as well as resorting to IT security measures. This virtual threat otherwise will rob the banks of their all resources and bring catastrophe over us, the CEO said.

The Moderator's Queue

In developed markets, some argue that greedy bankers' are not the cause of the global recession. But in developing markets like Bangladesh, bankers' integrity is under questions. Focusing the recent incidents of loan scandals, a question has been raised: Are the bankers blameless for the recent banking scams?

Golam Hafiz Ahmed



The banking sector in Bangladesh at the moment is facing mounting threats from both real and virtual side of its environment. Banking once was an honoured profession, but now stands in a grave situation.

This has created well founded panic and apprehension among the stakeholders- the people in general and the professionals in particular. Multi-faced problems

marred the scene and made an atmosphere of discomfort uneasiness, owing to the unscrupulous activities of a few people having no ethical standing.

Some recent incidents that bare of any ethical base have also aggravated the conditions to a great extent. From Hallmark, Bismillah Group scam in Bangladesh to Forex scandal in UK has shattered the trust and confidence of the stakeholders immensely. The bankers are being accused of for all the mishaps worldwide on a wholesale manner thereby putting a veil over other determinants of the total picture.

In public and civil society talks, bankers are made scapegoat for all that go wrong with the sector, terming them as "Greedy Bankers" without looking into deep to find root cause of the matter. I think too much solely blaming the bankers would be like shouting at the clouds because its raining. In my opinion some intertwined factors are playing behind this sorry state we are witnessing for some time.

In country level, the market is too small where not less than 57 Banks are pitting against each other for grabbing market share as big as possible. This gives rise to an unethical competition of that opened up a floodgate of allowing huge credit without taking adequate security/collateral, causing crunch in further investment in one hand and leading the former to non-performing state on the other. The borrowers' behavior over the years has changed a lot and in a huge number of cases their implicit motive is to deprive the banks to serve their greedy ends.

Evidences are there that funds are diverted to other un-productive luxury expenditures which have taken a facade of regular phenomenon in the country. This also being one of the causes of huge NPL that is now pose threat to the sector. NPL by default puts bar on profitability and creates hindrance to the smooth operation of the banks. Whereas banks' CEO's are continuously under pressure to increasing profit, in some instances which is impractically fixed without considering the

market potential and ability of the banks concerned. This also gives rise to the practices beyond acceptable norms.

Trap of inflating profit is a big threat

The bank CEO's are now under huge pressure to manage the challenge of creating profit and reduce rate of interest against credit by the regulator which narrow downs the spread alarming and ultimately blocking chance of earning the profit. But the fact is that profit is not a thing that comes easily as one wants or expects.

There are some conditions for getting a profit which depends on mood of the people concerned i.e. stakeholders as a whole & available investment opportunity promising good yield. This we tend to overlook for reasons unknown. In global perspective, the situation is more or less similar, where banks are knowingly or unconsciously step into the trap of inflating profit for no apparent valid reason.

A recent global example is penalization of Wells Fargo Bank of the USA for USD 185 million for issuing fictitious cards to the customers without their knowledge and later on realizing excessive charges against these accounts. This is undoubtedly precedent of unethical practices stemming from ambitious target being set without proper judgment and aggressive drive to reach that goal.

Previously, we have seen the great credit crunch that griped the world economy in a vice of recession for years a few years back changing the total outlook of the economists as well as market players. Huge efforts were needed to bail out of that situation, effects of which are still felt in the advanced economies and developing countries as well. That was also a resultant effect of unethically extending of credit without taking adequate measures to secure the same.

Eroding confidence is a top concern

The prevailing default culture has been a result of such ambitious and impractical marketing drive creating scope for depriving the banks from their rightful dues. As a result, public in general and depositors in particular are loosing confidence on the bankers. Also banks have lost confidence on their big and high profile borrowers to whom they have extended mammoth sized loan facility but now suffering from the grim effect of non payment. In cases borrowers of such status even show resentment to banks for asking their money back. Extending huge credit to single borrower by the multiple banks also plays as catalyst in default culture.

In Bangladesh, the banking sector is experiencing a plethora of changes over the years particularly from fraud risks management perspective, with the Bangladesh Bank issuing several directives aimed at improving governance, internal control and risk management among banks for mitigating the risks of loan default and fraud. The pace of change in the sector has left the banks

grappling with multiple fraud related challenges when there appears to be certain lag in the implementation of fraud risk management measures as seen so far.

For last 2 decades, using banking channels to launder money and financing terrorist acts is also put the sector in huge reputational risk and threat of legal proceedings. Though banks have little control over these miscreants, but they have been indiscriminately blamed for the deviations that take place. Such compliance issues are now putting the professional bankers in serious dilemma as to decide befitting strategies of balancing them with their prime objectives.

In fact, banking need to recover the sacred confidence that is on the brink of lost, the single most important commodity traded in the sector. The stakeholders must have trust on each other as well as on quality, ethics and skills of bankers. They should also keep believe in the prudence and well thought regulations formulated by the government. Without confidence, achieving 'twin challenges' of engineering a recovery and reforming the financial system will be impossible.

There is no doubt that time befitting reform of existing acts and laws regulating the sector and in applicable cases enacting new laws are order of the day to restore discipline in the sector and thereby bringing back the trust that has been lost for some years. Vigorous training programmes based on the down to the earth requirement must be arranged for people dealing with issues that carry risk of any sort.

Ethical values are the cornerstone of banking

Is regulation enough to combat frauds?

In regulatory point, Bangladesh Bank is tightening its regulations and supervisions. But the question still is looming largely: Does the regulation enough to check fraudulence incident in banking?

Punishing banks only will not make bankers behave better, I believe. My personal experience is that bankers who indulge in such frauds is minimum and most of the frauds are done by professional con men who deceive honest bank employees which leads to charge sheeting and sometimes suspension / dismissal of honest bankers.

Regulation is necessary, for reasons having to do with credibility and ensure good governance in both banks and financial institutions to save good people from a few bad apples... I think, it should be on the fit and test basis. For banks and NBFIs, shareholders' track records should come under the scrutiny as good people are leaving the institutions for a few bad apples.

Facing the challenges head-on in a compliant manner should be our goal towards creating a sustainable, profitable and forward-looking banking sector. We need to do more and run faster with clear visibility to ensure overall governance and accountability in the country.

Where do banks stand now?

Over the past five years, banks have instituted complex control systems to detect and punish rogue behavior. In this respect, banks in Bangladesh have made great strides. Increased levels of surveillance, with appropriate governance and controls such as mandatory signoffs, have enhanced firms' abilities to identify and manage this type of misconduct. Advances in data analytics are rapidly improving these processes at leading institutions.

Cyber threat is the giant threat

The great concern for all is the cyber threat that is looming before the banking originated due to rapid automation of operations without imparting adequate knowledge to the functionaries or service point staff. Advanced technologies like EFTN and RTGS introduced with a noble cause have also been turned out to be weapon of bad elements. Incidents like misappropriation of fund involving the central banks were one of such striking happenings.

The whole industry is at the grip of shock by this unprecedented event and looks desperately for security measures and check points. Banks internal control mechanism must be strengthened to be free of such occurrences as well as resorting to IT security measures. This virtual threat otherwise will rob the banks of their all resources and bring catastrophe over us.

In all spheres of banking operations from defining the criteria on pre-requisite for becoming sponsors for governance to rules and guidelines should be accommodated in terms of practical needs like all other components of the economy. Banking must also function on realistic base or assumptions.

Setting ambitious goals for profit or any other likely items should be discouraged so that it can navigate in its normal course. Preventive measures are to be designed to arrest any undue or unethical attempts to undermine the sector, which was just a few years back a prestigious and noble profession to aspire for.

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Beyond this monitoring, most of the institutions have also addressed many old problems through value statements, codes of conduct, or other formal means. They have also initiated processes that impact culture proactively or incidentally as part of a broader response to certain regulatory mandates.

The challenge is that the behavior in such cases is often aligned with the profit-generating interest of the bank — a situation that tends to empower revenue-generating business units relative to cost centers such as risk or compliance. Most dangerously, the bad apples that cause the bank the greatest damage are often also the "star" profit-generating performers of recent quarters.

Therefore, the way to improve culture, and in turn improve employee conduct, is not by simply publishing new codes of conduct or values statements, or by implementing some new processes. It is also not by merely lowering the bank's overall financial risk. We would go further so that the apple trees and even the surrounding soil are ripe for change. Boards and management should ensure that their actions are consistent with their message to employees.

At UCB Bank, we put more focus not only on KYC implementation practices to identify the bad apples but also focus the cultural issues within our organisation. To combat cyber attacks, we have upgraded our IT security to a fool-proof system and our process does not end here.

We are continuously adopting the latest technology to scrutinize all transaction process and strengthen credit risk management tools to combat all threats and ill-practices in banking operations.

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SUMMARY OF DIALOGUES

Mr. Syed Waseque Md Ali, Managing Director, the Managing Director and CEO of First Security is a dynamic leader and a seasoned banker, having more than 32 years of extensive and versatile banking experience with diversified, welfare and next generation banking business. In this dialogue, the CEO said the banks in Bangladesh are vulnerable to cyber attacks, as we have put less focus on IT in the past.

However, the situation has been improved significantly in recent days as many banks have installed costly software in an "ineffective way" mostly provided by foreign companies. But dependency on foreign companies or professionals may create another setback in the future.

To protect their assets against cybercriminals, banks should invest more in security landscape, improve computer security software developed by own professionals. The board should be more proactive to allocate funds to safe guard depositors fund ignoring higher profits. They should improve corporate environment focusing ethical issues. Otherwise, the consequence would be dangerous more, the CEO said.

The Moderator's Queue

Financial institutions around the world are clearly in the firing line and are prominent targets for hackers when internal security breach has become a big concern for banks. The question is: Where do banks stand and what would be the prime focus for banks to remain safe? Is it tougher regulations? Any robust IT solution?

Syed Waseque Md Ali

Financial institutions around the world are clearly in the firing line and are prominent targets for hackers. In Bangladesh, several study reports say banks are vulnerable to cyber attacks, as we have put less focus on IT in the past. A BIBM study says banks face up to 300 malicious software attacks a day, 60 per cent of them by the local hackers. While 70 per cent banks had no separate and independent IT security and risks management division in the past.

However, the situation has been improved significantly in recent days as many banks have installed costly software in an "ineffective way" mostly provided by foreign companies. But dependency on foreign companies or professionals may create another setback in the future. So IT experts suggest banks should develop their own defensive system by their own people.

Banks are vulnerable to cyber attacks

Kaspersky's 2015 security bulletin recorded nearly 2 million attempts to infect computers with malicious software "that aimed to steal money via online access to bank accounts." The cyber criminals are very intelligent, living around us and targeting big banks to steal money sitting on their table just with a computer connected to the internet.

In February, attackers targeted SWIFT (the system used by thousands of financial institutions around the world to move large amounts of cash) and successfully stole \$81m from the central bank of Bangladesh. A more recent attack recently on an unnamed bank also targeted SWIFT with the attackers possessing a "deep and sophisticated knowledge of specific operational controls," according to SWIFT. The cyber criminals didn't our central bank and stolen money from our nestro account with the Federal Reserve Bank. A number of our banks came under the attacks of hackers over the years.

Clearly, cyber crime is a problem for banks and financial institutions, many of which aren't adequately prepared. The implications of being hacked successfully could be disastrous for a bank, both in terms of clients having personal details or funds stolen, and the institution losing its reputation and trust. To protect their assets against cybercriminals, banks should invest more in security landscape, improve computer security software developed by own professionals. The board should be more proactive to allocate funds to safe guard depositors fund ignoring higher profits. Otherwise, the consequence would be dangerous more.

Regulation is not the ultimate solution

As the world becomes more and more connected to the Internet through computers, so the regulators are coming with tougher rules. But too much tougher rule is not the ultimate solution. Banks are the custodian of depositors, so they should welcome regulations- to

safeguard depositors' money and ensure returns for their shareholders and investors.

But the regulations should be realistic, more focus should be given on supervision. The problem is that we pay heed to the problems after the incident. If banks follow the Bangladesh Bank guidelines, they will remain safe from any untoward situation. After the recent attack on SWIFT, however, Bangladesh Bank has increased its supervision, so, the banking sector today are more regulated than ever.

But concern still remains

A significant number of cyber attacks were made in the banking industry of Bangladesh over the years, but we put focus on the issue very lately. With the growing use of mobile phones and internet, many experts say Bangladesh is ever more vulnerable to cyber attacks. Cyber criminals can gain access to financial data, compromise intellectual property of companies, tap sensitive national data and steal government records. These actions could compromise national security and interests.

Another concern is internal security breaches. The country has witnessed high-profile security breaches over the last few years. Last year, bank accounts of a private bank were compromised and money withdrawn from them. Experts have blamed for security breaches within the organizations for such incidents, may be unwillingly driven by carelessness.

But internal security breach mostly driven by lack of integrity, professionalism and ethics is a big concern for banks now. Several study reveal that it is growing faster with global banks than external attacks, as institutions invest in technology, instead of employee training. According to the 2005 Global Security Survey, published by Deloitte Touche Tohmatsu, 35 per cent of respondents said that they had encountered attacks from inside their organisation within the last 12 months, up from 14 per cent in 2004. In contrast, only 26 per cent confirmed external attacks, compared to 23 per cent in 2004.

Needs sound defensive system

So, banks must develop a sound defensive system by improving corporate cultural environment as well as deploying technology tools to detect wrong doings instantly before the incidents. Creating good contingency plans and incident response plans are not enough for them, they must focus on their own people and boorish ethical culture.

It's important for every organization, every company to begin to further their progression on cyber defense. That's not just protecting their network from the minimum bar of hygiene and compliance but also improving the culture within the organization.

Mobile Financial Service At Crossroads

Is MFS the next major battle ground?

A new fusion has been occurred with apparently dissimilar partners some concerns, unsettled regulatory debates and confusing rules are sparking gloomy signals to the growth of the MFS industry in Bangladesh and discouraging foreign investors to invest in this fast growing MFS industry. The question has been raised: Why a fintech firm must give its full control to a bank? Why one banks, why not ten banks?

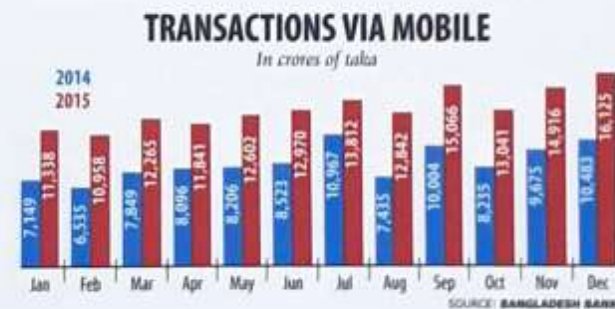
Faruk Ahmed

A financial revolution is in progress with an innovation- mobile financial service (MFS)- the use of mobile phones to make financial transactions. This innovation has reduced transaction costs and increased in outreach to enable poor unbanked people to access micro financial services. Industry experts say international investors are looking such areas to invest their capitals, which is very urgent for Bangladesh to reach at its growth target.

Today, MFS industry has around 3.6 crore registered mobile wallet users all over the country mostly who are unbanked, bolstered by the rapid expansion of financial outlets in rural areas. Further growth of MFS would not only ensure higher penetration at the Bottom of the Pyramid (BOP) market, but also contribute to growth of online e-commerce transactions.

But some regulatory concerns and confusions over regulations centering to this innovation are threatening the journey of MFS industry that began in 2011 in Bangladesh. A new fusion has been occurred with apparently dissimilar partners between the banking industry and the telecommunication industry. Some see MFS as a disruption of technology, while others construed it as a technology enabler, which has initiated a cold war between fintech firms and commercial banks. The situation is scaring new entity and discouraging foreign and local investors.

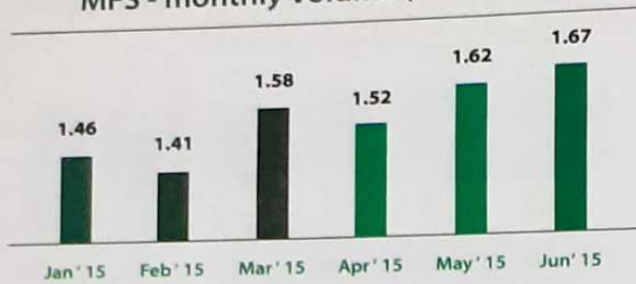
So the question has been raised: Is mobile merchant payment the next major battleground for digital finan-



cial services providers?

Both parties, however, are agreed upon the fact that MFS is the finest integration of finance and technology in Bangladesh and contributing to rural-urban fund flow significantly over the years that was beyond the imagination before this innovation. Thanks to regulatory support and unique collaboration among banks, fintech firms and telecoms, the MFS industry experienced an impressive growth of 91.6 per cent in 2014 in terms of customers and 57.81 per cent in terms of cash transactions. Both industry experts, market operators and also regulators are convinced that the growth of MFS would not only ensure higher penetration at the Bottom of the Pyramid (BOP) market, but also contribute to the growth of online e-commerce transactions. But some concerns, unsettled regulatory debates and confusing rules are sparking gloomy signals to the growth the MFS industry in Bangladesh. As a result, consumers have become less trust

MFS - monthly Volume (in USD bln)



Source: Bangladesh Bank

ing and more demanding. Many fear that this will hit the MFS growth in the near term and discourage potential investors to invest in this growing cash industry.

So, industry experts see the MFS journey is now at a crossroads. The implacable question is: Where to go from here?

The MFS Journey: Nairobi to Dhaka

In 2007, the MFSs journey began from Kenya with M-Pesha, then travelled to other developing countries like South Africa, Philippines, India, Pakistan and finally has put its strong foothold in Bangladesh with bKash. It is a joint venture between BRAC Bank and a fintech formed by US-based Money in Motion, Bill & Melinda Gates Foundation and International Finance Corporation (IFC), which is a wing of The World Bank Group.

In collaboration with Brac Bank, BKash has made an impossible task possible in Bangladesh bringing millions of people to the formal banking service within a span of time while only 29.1% of adult population had access to financial services, whereas 78% of the total population possessed mobile phones. Today, bkash has more than 23 million subscribers all over the country who are transacting more than Tk 4 billion a day on an average. Under a unique bank led model, bKash made revolution without any incident of disruption and has appeared as the global leader in the global MFS industry in terms of growth of subscribers.

For the BB, bKash is now the reality, no longer "unknown and untested" service rather "the role model of other developing countries". Today, bKash is the global leader in the global MFS industry in terms of growth of subscribers and the role model of developing countries in the rest of the world. Taking lessons from telco based M-Pesha and others, the BB has created a new mantra in MFS regulations allowing both banks and fintech firms like Bkash to make collaboration with telecom firms and play in its financial regime. This new mantra has increased competi-

tion in MFS industry that benefits customers.

Over the years, the both banks and fintech firms have created new economic relationships with unbanked as well as the banked with the new innovation- the MFS. But these relationships are being constrained by the existing institutional framework of banks and central bank supervision which, many industry experts fear, may hit the industry progress in near term. Competition between bank and non bank players has created a difficult situation for any new entity in the MFS industry. Regulators have forced fintech firms to collaborate with banks, who are their competitors and consider the fintech firms as a threat. So, it is likely to become a more crowded battlefield in the country's payment industry.

Some Regulatory Debates

The MFS industry situation has become more difficult in recent days for some regulatory debates as technological nuances have made the mobile channel a little different. Regulators are concerned over risks issues related to money supply, customers' interests and other risks and threats including money laundering and terrorists' financing. So they will want to enable the potential of the digitally contestable markets with mobile phone device to deliver efficiency and innovation, while minimizing risks for consumers and the burden of adjustment for incumbents. But some issues are still unsettled despite many discussions among the stakeholders. Some see MFS as a disruption of technology, while others construed it as a technology enabler.

Regulators in many countries, however, are now convinced that mobile banking is not a big risk concern in comparison with traditional banking risks. So MFSs should not be regulated like banks as they are not involved in banking operations. They are just transferring money one to another, like postal service operator, within a regime. The services rendered by





the MFSs have fallen under the purview of e-commerce, meaning they are regulated in the same way as Internet or online banking transactions.

A report carried out in the Ghana based BEIGE Capital in one of its May 2016 edition has found that the mobile money service poses no threat to the future of the banking sector in Ghana while traditional banks faced jolts from various risks. Donald Saxinger, senior officials of US Federal Reserve Bank sees mobile a unique – particularly because a number of non-financial players touch the mobile channel. Wireless carriers and mobile-phone platform providers, such as BlackBerry, are not required to comply with e-commerce regulations like Regulation E, and financial institutions have little control over how those entities manage and secure the information they send, receive and store.

For AML, some experts argue that mobile banking can be exempt for the face-to-face account opening and is thus subject to lower requirements. Verification of the identity can be cross-verified using other data bases such as those of the department of Home Affairs. In Bangladesh, no evidence of money laundering has been detected till to date as the BB has set up transaction limits for a single customer at minimum level- Tk 25,000.00 per day. To exceed this limit, a face to face verification is required. A person can open only one account using non face-to-face account opening procedures. "In case of KYC management, banks are bound to implement the rules, so MFSs must follow the same rules. To maintain KYC rules, fintech firm like Bkash does not need a bank, the need is increased supervisions", said a former senior official of Bangladesh Bank.

So, in the name of risks, industry experts say regulators should not block the entry of new entity and give the opportunity to a single take an advantage of the regulation over their non bank partner.

Confusion over regulations

To control money supply, check money laundering

and ensure protection of money owned by customers, the BB wants to see the money transacted through MFS channel should be parked in a regulated bank and to be flowed through the bank. Just only for this reason, under the existing bank led model, a fintech firm or a telecom firm needs to give full control of its operations to a regulated bank.

Bangladesh Bank (BB), however, has allowed Bkash to place funds in more than one bank. It means, regulators can supervise MFS money flow through different banks. But confusion still exists in BB's observations and regulations, which are needed to be clear.

Back in 2011, let me explain it, MFSs were in uncharted waters. BB issued license to entities it already regulated- they parked this area under banks. In its guidelines, BB stated that "Only banks and bank subsidiaries would be allowed to provide MFS". The term "bank subsidiary" was defined as an entity in which an ownership interest of 51% or more was held by a bank. Following the astronomical growth in mobile payment business in the country, the BB in 2015 revised the guidelines and introduced bank led model that barred mobile network operators (MNOs) to do payment business.

BB, however, has appreciated the roles of MFS and decided that such entities are to be supervised by a separate supervisory mechanism within the BB, rather than indirectly through banking share holder, who has controlling interest. And the revolutionary development in regulation is that BB has separated MFS from regular banking which is conducive to MFS success.

But still a confusion regarding the regulatory meaning of 'subsidiary' exists, which need to be cleared to keep the pace of the mobile banking growth of Bangladesh. Because, one side of the guidelines, BB has "separated" MFS from regular banking, on the other side, the bank led model forces them to give 51% stake to a bank which can undermine BB's own supervisory role that the central bank wishes to adopt.

Why One, not Ten?

So, a question has been raised: Why a fintech firm must give its full control to a bank? Why one banks, why not ten banks?

Bkash, for example, stands on bank led model with different shapes. Brac Bank holds major share of bKash as the BB needs to monitor transactions through its channel to control money supply and control inflation through its existing process maintained by banks. So, it has made mandatory for fintech firms involved in MFS business to tie up with a bank where money would be saved.

But the question remains regarding the ownership

pattern of MFS entity where fintech firm has to give 51% control to a bank, which, many experts say, is impeding the emergence of much needed competition.

One of the best arguments for allowing fintech firm in payment business was, some central bank officials explained, it will reduce cost of transactions compared to such transfers by banks, including time spent by poor people in travelling to the payment point. Increased competition will reduce cost but the situation is quite different. MFSs are now controlled by the banks, who are at the same time their competitors. So, experts say the regulations should make sense and apply to all applicable entities. If the regulators can monitor bKash money flows through Brac bank, it can also monitor bKash money through more banks where it is now placing its funds.

So, the question is: should BB restrict the Fintech firms to give 51% stake to a single bank? Why is one, why is not ten?

The BB has recently asked Bkash to deposit its money in different banks and instructed it to pay interest against the limited deposits customers may maintain and play more roles in financial inclusion. So, the question is: Can a new fintech firm do MFS business in Bangladesh subject to the condition that it will park its deposits in many banks, like an insurance company and use mobile services from regulated telecoms, like bKash? Certainly is not, as the fintech firm must give at least 51% stake to new entity to a single bank as per the existing regulation. And this is discouraging foreign investments in Bangladesh MFS industry.

Is MFS everybody's business?

What is everybody's business is nobody's business. Specialised service like MFS needs specialisation and dedication to win the battle. This has been proved again in the MFS industry of Bangladesh. The BB allowed 28 commercial banks to serve the poor with cheaper mobile money service. But only 19 banks are officially active now and most of them have failed to reach the remote areas over the years.

Some mobile banking experts see the three main reasons behind this. Firstly, MFS is a specialized service, not like traditional banking service, so banks failed to manage operations properly. Secondly, technological capability, service delivery and customers' confidence are very important to market penetration what most banks failed to deliver. Thirdly, banks are under various pressures with many hurdles like rising costs, falling interest rates, compliance pressure — so, it is very tough for the banks to run such a technical service under their heavy and complex corporate mechanism.

Thanks to techno partnership with global brands, bKash filled up the gap and captured alone 80% market share in Bangladesh outflanking its bank competitors. Today, it is in the hearts of millions of poor people of Bangladesh and the bright example of the fintech success in MFS business. So, some questions have been raised: Should we welcome more innovative, low-cost digital startups for MFS business that challenge established banks? Or rein them in as dangerous insurgents that put jobs at risks, compromise quality and safety, and reduce tax revenues?

Let a thousand flowers bloom: Two ideas

Both banks and fintech firms and regulators and industry experts generally agreed that mobile financial services needs to be encouraged to permit the unbanked to avail of financial services. So, one idea is that the government may formulate a separate body for MFS providers to supervise fintech firms and telecom firms involved in MFSs operations. The other idea is that BB can allow more fintech firms to run MFS business under the existing regulatory binding with some minor amendment that the MFS providers will place/keep customers' deposits in banks for its regulatory supervisions. The BB can monitor money transactions through MFS channels vis its partner banks.

The argument for allowing more fintech firms in MFS business is that fintech firms are better skilled, dedicated to this tech based MFS service and in collaboration with their partner banks and telecoms, they can offer more innovative service to poor customers at lower rates. Otherwise, MFS customers who are also bank customers and very sensitive to service delivery may hold back from banks, which is detrimental to financial inclusion.

Let a thousand flowers bloom through the new innovation-MFS, the effective tool for financial inclusion. So, experts urge the government as well as the regulatory authorities to review the concerns and solve the questions relating to MFSs regulations. This would flourish new innovation and attract foreign investment, Bangladesh needs to meet its growth target.



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